

**U.S. Agency for International Development
Guatemala – Central American Program
(USAID/G-CAP)**



***Central American Program
Strategic Plan
FY 2002-2006***

September 7, 2000

TABLE OF CONTENTS

EXECUTIVE SUMMARY	i
PART I: Summary Analysis of Assistance Environment and Rationale for the Central American Program	1
A. Introduction.....	1
B. Central American Development Overview: The Continuing Challenges.....	3
C. U.S. Foreign Policy Interests and Central American Goals.....	7
D. Rationale for the Regional Strategy and Areas of Focus	8
E. Regional Strategic Objectives.....	9
F. Other Donor Programs.....	10
G. Customer Focus	11
PART II: Proposed Strategic Plan	12
Strategic Objective 1: Increased Central American Competitiveness in Global Markets	12
A. Linkages to Agency Goals and Objectives	12
B. Linkages to U.S. and Regional Central American Goals.....	12
1. U.S. Foreign Policy Goals	12
2. Regional Central American Goals	13
C. Problem Analysis.....	14
D. Results Framework	18
<i>IR1.1: More Open Trade and Investment Policies</i>	20
<i>IR1.2: Accelerated Central American Market Integration</i>	22
<i>IR1.3: More Equitable and Efficient Labor Markets.....</i>	24
E. Critical Assumptions.....	26
F. Development Partners and Other USAID Activities	26
G. Customer Focus	27
H. Sustainability.....	28
I. Measuring Achievements: Indicators and Targets.....	29
1. Strategic Objective Level.....	29
2. Intermediate Result Level	29
Strategic Objective 2: Improved Environmental Management in the Mesoamerican Biological Corridor	31
A. Linkages to Agency Goals and Objectives	31
B. Linkages to U.S. and Regional Central American Goals.....	31
1. U.S. Foreign Policy Goals	31
2. Regional Central American Goals	31
C. Problem Analysis.....	32
D. Results Framework	35
<i>IR2.1: Improved Protected Area Management.....</i>	38
<i>IR2.2: Expanded Environmentally Sound Products and Services</i>	39

<i>IR2.3: Harmonized Environmental Regulations</i>	42
<i>IR2.4: Increased Use of Less Polluting Technologies</i>	44
E. Critical Assumptions.....	45
F. Development Partners and Other USAID Activities	45
G. Customer Focus	47
H. Sustainability.....	47
I. Measuring Achievements: Indicators and Targets.....	48
1. Strategic Objective Level.....	48
2. Intermediate Result Level	48
Strategic Objective 3: An Enhanced Central American Capacity to Respond	
To the HIV/AIDS Crisis	50
A. Linkages to Agency Goals and Objectives	50
B. Linkages to U.S. and Regional Central American Goals.....	50
1. U.S. Foreign Policy Goals	50
2. Regional Central American Goals	50
C. Problem Analysis.....	50
D. Results Framework	56
<i>IR3.1: Appropriate HIV/AIDS Policies and Strategic Plans Implemented</i>	56
<i>IR3.2: Improved Prevention, Support Systems and Other Services</i> <i>Implemented</i>	58
<i>IR3.3: An Effective Regional Condom Social Marketing Program</i>	59
E. Critical Assumptions.....	60
F. Development Partners and Other USAID Activities	60
G. Customer Focus	61
H. Sustainability.....	62
I. Measuring Achievements: Indicators and Targets.....	63
1. Strategic Objective Level.....	63
2. Intermediate Result Level	63
Strategic Objective 4: Strengthened Municipal Finance Systems for Local Governments	
in Central America.....	64
A. Linkages to Agency Goals and Objectives	64
B. Linkages to U.S. and Regional Central American Goals.....	64
C. Problem Analysis.....	64
D. Results Framework	66
<i>IR4.1: Promoting Credit Quality Standards for Local Government</i>	68
<i>IR4.2: Increasing Local Government Access to Capital Markets</i>	70
<i>IR4.3: Promoting Private Sector Participation (PSP) in Local Services</i> <i>and Infrastructure</i>	73
E. Critical Assumptions.....	74
F. Development Partners and Other USAID Activities	75
G. Customer Focus	76
H. Sustainability.....	76
I. Measuring Achievements: Indicators and Targets.....	77
1. Strategic Objective Level.....	77

2. Intermediate Result Level	77
PART III: Resource Requirements	79
1. Scenario 1: Proposed Resource Request.....	81
2. Scenario 2: Additional 10%	82
3. Scenario 3: Minus 10%.....	83
ANNEX 1: USAID/G-CAP Regional Strategic Objectives and CA Bilateral USAID Missions SOs	

List of Acronyms

ALIDES	Alliance for Sustainable Development
API	AIDS Program Index
BFM	Business Facilitation Measures
BOOT	Build-Operate-Own-Transfer
BOT	Build-Operate-Transfer
CA	Central America
CABEI	Central American Bank for Economic Integration
CACEDERF	Central America and the Caribbean Emergency Disaster Recovery Fund
CACM	Central American Common Market
CBI	Caribbean Basin Initiative
CCAD	Central American Commission for Environment and Development
CEPAL	UN Economic Commission for Latin America and the Caribbean
CIDA	Canadian International Development Agency
CITES	Convention on International Trade of Endangered Species
CONCASIDA	Central American AIDS Congress
CONCAUSA	Central America – USA Agreement
CRRH	Regional Committee on Hydrologic Resources
CSM	Condom Social Marketing
CSP	Customer Service Plan
CSW	Commercial Sex Workers
DANIDA	Danish Development Agency
DCA	Development Credit Authority
DOL	Department of Labor
ECLA	Economic Commission for Latin America
EPA	Environmental Protection Agency
EU	European Union
FEMICA	Federation of Municipal Associations for Central America
FIIC	Federation of Chambers of Construction
FOCADES	Central American Sustainable Development Fund
FTAA	Free Trade Area of the Americas
FY	Fiscal Year
G/DG	Global Bureau/Center for Democracy and Governance
GDP	Gross Domestic Product
GEF	Global Environmental Facility
G/EGAD	Global Bureau/Center for Economic Growth and Agricultural Development
GHG	Green House Gas
GPA	Global Program on AIDS
GTZ	German Development Agency
HIV/AIDS	Human Immune deficiency Virus/ Acquired Immune Deficiency Syndrome
IDB	Interamerican Development Bank

ILO	International Labor Organization
IMPI	Mexican Institute of Intellectual Property
INCAE	Central American Business Institute
INFOM	Municipal Investment Fund for Guatemala
IPR	Intellectual Property Rights
IR	Intermediate Result
ISO	International Standards Organization
KAP	Knowledge, Attitudes and Practices
LAC	Latin America and the Caribbean Bureau
LACUN	Latin American and Caribbean Urban Network
MBC	Mesoamerican Biological Corridor
MPP	Mission Program Plans
MSWM	Men who have sex with men
NAFTA	North America Free Trade Agreement
NGO	Non-Governmental Organization
NOAA	National Oceanic and Atmospheric Administration
OAS	Organization of American States
OSHA	Occupational Safety and Health Administration
PACADIRH	Central American Action Plan for Integrated Hydrologic Resources Management
PARCA	Regional Environmental Action Plan for Central America
PARLACEN	Central American Parliament
PASA	Participating Agency Service Agreement
POP	Persistent Organic Pollutants
PROMUNI	Municipal Infrastructure Finance Program
RAMSAR	International Wetlands Convention
RESSCAD	Regional Meeting of the Ministers of Health
RUDO/LAC	Regional Urban Development Office for Latin America and the Caribbean
SICA	Secretariat for Central American Integration
SIDA	Acquired Immune Deficiency Syndrome
SIECA	Central American Secretariat for Economic Integration
SO	Strategic Objective
TRIPS	Trade Related Aspects of Intellectual Property Rights Protection
U.S.	United States
UN	United Nations
UNAIDS	United Nations Joint Program on AIDS
UNCTAD	United Nations Convention on Trade and Development
UNDP	UN Development Program
UNEP	UN Environmental Program
UNFCCC	UN Framework Convention on Climate Change
USAID	U.S. Agency for International Development
USAID/G-CAP	U.S. Agency for International Development Guatemala – Central American Program
USAID/W	U.S. Agency for International Development in Washington, D. C.
USG	United States Government

US-LACEP	U.S. Latin America and Caribbean Environmental Partnership Program
USPTO	U.S. Patent and Trademark Office
WEF	World Economic Forum
WIPO	World Intellectual Property Organization
WTO	World Trade Organization

EXECUTIVE SUMMARY

Central America faces formidable challenges over the next five years in making further progress in achieving the Alliance for Sustainable Development goals that its leaders presented in October 1994. Peace now reigns in the region and democratically elected governments are the norm. However, the region is still a long way from fulfilling the promise of prosperous, sustainable, and participatory democratic societies contained in ALIDES and serious challenges to regional integration remain.

Poverty persists despite expanded trade and economic growth since the end of political conflicts while governments adhere to macroeconomic discipline and outward-oriented trade policies. Internal barriers to trade among countries remain, further hampering expanded regional trade and greater participation by smaller businesses in regional economic activity. Recent simmering border disputes are affecting regional cooperation agendas and recovery from Hurricane Mitch is the national priority for Honduras and Nicaragua. Degradation of natural resources continues, threatening the region's rich biodiversity and the future potential of non-traditional agriculture, sustainable forestry, and tourism as well as the region's vulnerability to future natural disasters. Increasing global competition presents a unique set of challenges which will require greater regional cooperation in many areas: trade and investment, labor, and environment. Without cooperation in harmonizing sound policies and regulations in these areas and elimination of intra-regional barriers to investment, the region runs a very real risk of declining economic growth and inability to achieve the sustainable development objectives of ALIDES. Increased local participation and development of democracy at the municipal level is hampered by a lack of managerial capacity and shortage of financial resources. Meanwhile HIV/AIDS continues to pose an additional and serious threat to future sustainable development in the region.

The USAID/G-CAP regional program has played a unique role in helping Central America address these challenges and achieve our shared goal of sustainable regional development. It has also furthered U.S. regional interests: sustaining peace and stable democratic systems across the region; facilitating conditions for expanded two-way trade and investment; reducing illegal immigration and narcotics trafficking by reducing poverty; stemming global and regional threats from environmental and resource degradation and loss of bio-diversity; and containing the spread of communicable diseases especially HIV/AIDS.

The recent May 15, 2000 senior level review of the Central America-USA Agreement (CONCAUSA) accomplishments reconfirmed the vitality and success of our partnership and recommended an updated CONCAUSA action plan to continue providing the framework for U.S. support and cooperation with Central America under ALIDES. The proposed new regional strategy is consistent with CONCAUSA and the Secretariat of Central American Integration's own strategy for the future. It also seeks to maximize the value added from regional interventions that can support bilateral USAID sustainable development programs. Feedback from bilateral USAID Missions on the proposed strategy was positive and supportive. USAID/Nicaragua expressed some concerns about

the regional HIV/AIDS program's involvement in country specific activities in relation to the bilateral program which we are addressing.

The new strategy is the outgrowth of a process of synthesizing lessons learned from our experience, research from studies like Central America 2020, INCAE/Harvard's study, Central America in the 21st Century: An agenda for Competitiveness and Sustainable Development, the State of the Region Report and consultations with all our partners and customers.

The new USAID/G-CAP strategy consists of four strategic objectives:

SO1: Increased Central American Competitiveness in Global Markets. This SO will assist the region in developing improved trade and investment policies; promoting legislation and regulatory mechanisms for energy and telecommunications that can increase private investment and better service delivery in rural areas; and fostering better functioning labor markets while protecting core labor standards.

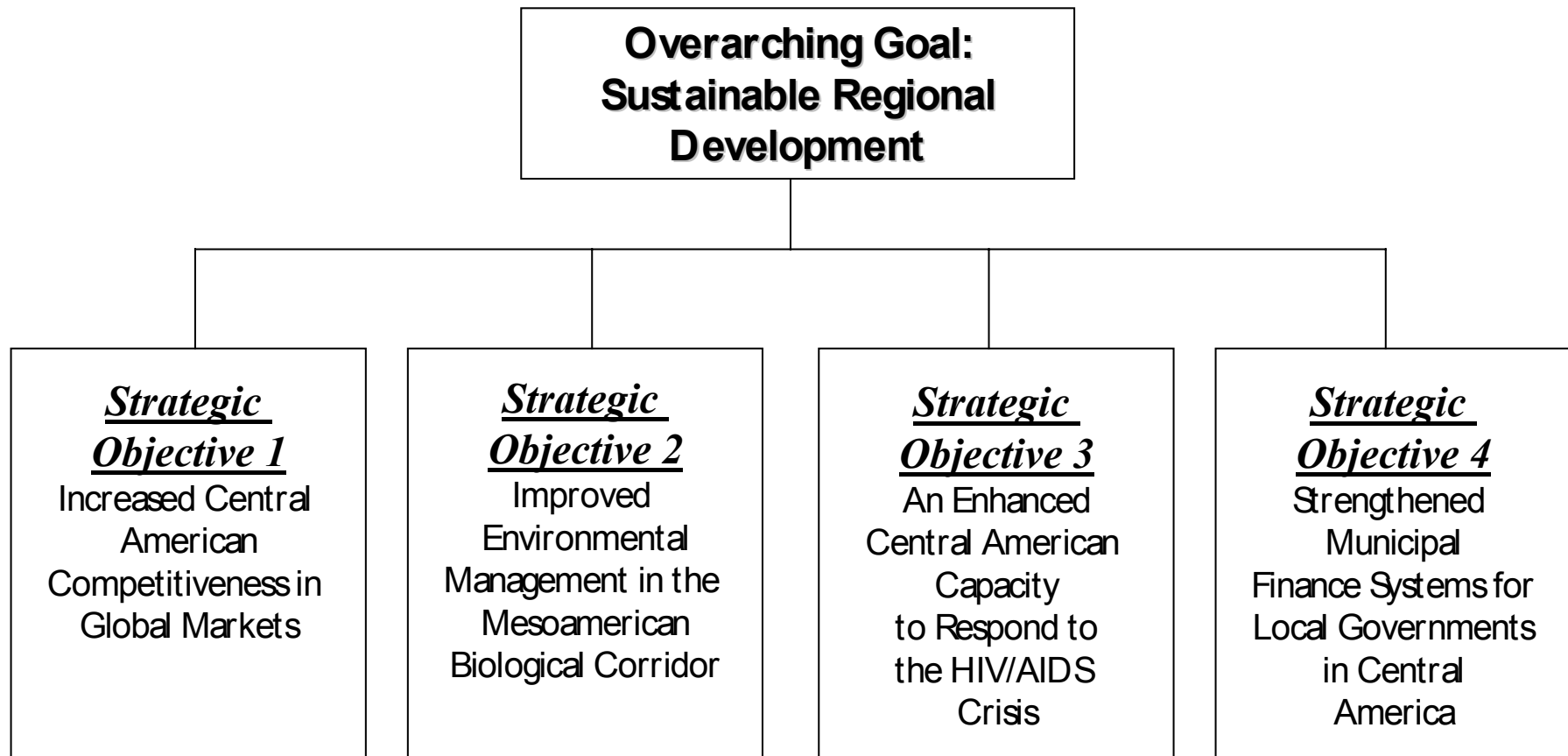
SO2: Improved Environmental Management in the Mesoamerican Biological Corridor. This SO will help improve environmental management in the Mesoamerican Biological Corridor (MBC) and the region by promoting sustainable protected area management in selected MBC sites, promoting regional certification of environmentally sound products and services, harmonizing environmental regulations and fostering increased use of less polluting technologies, while working to reduce vulnerability and mitigate disasters especially those relating to flood waters and forest fires.

SO3: An Enhanced Central American Capacity to Respond to the HIV/AIDS Crisis. This SO will assist in developing an enhanced capacity to respond to the HIV/AIDS by building a solid multifaceted Central American network which links expertise for the prevention, control and management of the HIV/AIDS epidemic and support condom use by high-risk populations and reduction in high risk behavior.

SO4: Strengthened Municipal Finance Systems for Local Governments in Central America. This SO will assist Central Americans to establish the building blocks for sustainable, equitable, and long-range finance and investment strategies for their growing communities by addressing key bottlenecks to access to credit by local governments and in municipal capacity to deliver services demanded by citizens.

In support of the FY 2002-2006 strategy we are requesting \$62 million in resource levels over the five-year strategy period.

Central American Program Strategic Plan



PART I: Summary Analysis of Assistance Environment and Rationale for the Central American Program

A. Introduction

In 1994 Central American leaders established the Alliance for Sustainable Development (ALIDES) committing themselves to transform a war-torn region into peaceful, prosperous, open, participative democratic societies managing their resources in a sustainable manner. President Clinton signed the Central America-USA Agreement (CONCAUSA) promising U.S. technical support for the implementation of the Alliance's environmental and sustainable development objectives later that year. CONCAUSA provided the overall framework for USAID/G-CAP's FY1997-2001 Central American Program Strategic Plan and our regional development assistance. Trade, labor, privatization and environmental themes formed part of the agenda for the San Jose CA-US Presidential Summits in May 1997 and the Antigua Summit in March 1999. These themes also structured the agendas for various Secretary of State meetings with CA Foreign and Environmental Ministers and the November 1997 meeting between CA Labor Ministers and the U.S. Secretary of Labor that reiterated our shared interest in protecting core labor standards. USAID's Central American program has been prominently mentioned in each of these high-level meetings. The May 15, 2000 Ministerial level review of CONCAUSA confirmed that ALIDES and CONCAUSA will continue to serve as the framework for sustainable development in the region both for Central America and the U.S.

Future Strategic Focus – Building on Results

The regional program's current strategic objectives support: 1) increased Central American participation in global markets by improving trade and investment policies, developing more equitable and better functioning labor markets, and opening competition in energy and telecommunications; and 2) helping the region better manage and protect its natural resources and rich bio-diversity. The HIV/AIDS objective, while not under the CONCAUSA umbrella, responds to a U.S. policy interest for the region and coordinates with Ministries of Health, non-governmental organizations (NGOs), and UNAIDS to raise awareness of this infectious disease threat to sustainable development.

Accomplishments of the regional program have been significant as described in the annual R4 documents. Some highlights:

- The regional program helped strengthen the regional institutions such as SIECA and the Commission for Environment and Development (now the Environmental Directorate of SICA) and advanced our shared agendas with the CA Ministers of Economy, Trade, Labor and Environment.
- Trade openness is working. Progress continues in reducing external tariffs from 5-20% to 0-15% by the year 2001. A number of regional and bilateral agreements have been signed (Dominican Republic) or are near signature (Chile, Mexico and Panama).

Central American countries have leadership positions on four Free Trade Area of the Americas (FTAA) negotiating groups (investment services, agriculture, government procurement, and the small economies working group). Imports from the U.S. have nearly doubled over the last five years to almost \$10 billion supporting 200,000 U.S. jobs. Intra-regional trade surged almost 20% in 1998 reflecting fewer internal trade and non-trade barriers and better overall trade policies.

- Greater awareness of Intellectual Property Rights issues and training of judges, prosecutors, and enforcement personnel is now widespread. The regional program helped Nicaragua implement a model IPR agreement with the U.S. and formulate a new IPR law, and helped Guatemala draft a new copyright law.
- The region's performance in the protection of worker's rights significantly improved over the past two years. All countries have been removed from the General System of Preferences worker rights watch list.
- Modernization of the regulatory framework for Guatemala's and El Salvador's electricity and telecommunications sectors have contributed to over \$3.3 billion in private investments in now privatized segments of those industries. USAID/G-CAP has helped address rural electricity coverage in Guatemala, by helping establish a \$260 million rural electrification fund (50% funded from the sale of the electricity parastatal) which can serve as a model for the rest of the region. The regional program is providing assistance to Nicaragua and Honduras in the initial legal and regulatory steps for privatization of their energy sectors.
- USAID's Regional Program has helped the Central American Commission for Environment and Development (CCAD) assert its leadership on regional environmental issues. USAID helped establish a tri-national alliance of NGOs for the Gulf of Honduras (shared by Belize, Guatemala and Honduras), which is now addressing enforcement of anti-poaching laws, hazardous waste spills, fishing regulations and other regional environmental concerns. Thirty-one protected areas (over 1 million hectares) are now under improved management and a monitoring strategy for protected areas was introduced, successfully tested and implemented in 15 sites in the region. The monitoring strategy was officially adopted by Costa Rica and Panama.
- USAID/G-CAP supported training in environmental enforcement and compliance has resulted in fines being levied on illegal activities. With USAID/G-CAP assistance, laws and regulations have been drafted on pollution control regulations in Costa Rica, El Salvador, Guatemala and Nicaragua, waste water regulations in El Salvador and Panama and a bio-diversity law in Nicaragua. National Convention on International Trade of Endangered Species (CITES) representatives have established regional norms and positions on illegal species trafficking.
- The regional HIV/AIDS program under a Memorandum of Understanding with the United Nations Joint Program on AIDS (UNAIDS) established participatory strategic planning processes in all CA countries. UNAIDS is citing this as a model to be

followed in other regions. With USAID support, six CA countries established national information dissemination centers; the condom social marketing program established a regional condom brand; and a regional NGO network is in place offering intervention programs to change behavior in high risk groups.

B. Central American Development Overview: The Continuing Challenges

Since USAID/G-CAP prepared its last strategy in late 1996, the region is a different place having made significant progress in a number of ways and facing new challenges and opportunities. In assessing these challenges and opportunities USAID/G-CAP carried out substantive interaction with other donors and partners, and consulted three recent comprehensive regional overviews. These included the State of the Region Report prepared in 1999 which presents a cross-cutting review of the major trends and issues facing the region and involved input from all sectors of C.A. society. INCAE/Harvard's study, Central America in the 21st Century: An agenda for Competitiveness and Sustainable Development, which contains a series of regional and national level recommendations to address CA's competitiveness challenge. A third key document consulted during the preparation of the strategy was the USAID/EU-funded Central America 2020 study which took a long-term prospective view of the region's future socioeconomic, environmental and political trends with recommendations for the region and donors on how best to address its developmental challenges. The CCAD's Regional Environmental Plan for Central America was also reviewed.

The Central America 2020 and State of the Region reports share a remarkable and sobering similarity on the challenges facing the region. The CA 2020 report in particular while recognizing the significant social, economic and political progress of the last ten years finds that persistent historical challenges remain for the region. New challenges from globalization of markets and information, the liberalization of trade and capital flows pose a special set of problems for smaller countries, which will require both national and regional responses. Among the most significant challenges and trends are the following:

Democratization. Central America is at peace and democracy is taking root. Civil society is exercising its freedom of expression locally and nationally. Government leaders at all levels are being elected. The armed forces are becoming subordinate to civilian control. Human rights violations have declined dramatically and are no longer an element of state policy. New forms of political and institutional accountability and control over the state's power are emerging. Democracy as a principle is affirmed regionally in the Alliance for Sustainable Development (ALIDES) and constitutionally guaranteed in all of the countries. These positive democratic developments along with relatively sound economic policies have increased economic activity.

Despite these positive democratic developments - they are fragile - and much needs to be done to strengthen the capacity of both civil society and democratic institutions. With the opening of democratic space, citizen expectations have also increased as civil society is demanding access to and fair and equal treatment under the justice system, an end to

impunity, and greater competence and accountability by the public sector at all levels. The CA 2020 report specifically identifies the need to strengthen local participation and development of democracy at the municipal level. However, the Achilles heel of this general move toward strengthening local participation and governance is the shortage of financial resources requiring an expansion of the revenue base and broadening resources from the private sector. The risk is that if institutions do not respond or are not open to civil society participation, trust and support for democratic institutions could rapidly dissipate.

Public security is a major concern in the region as manifested by increasing levels of violence and crime closely associated with drug trafficking and continued poverty. This has major implications for the democratization process in the region. However it will primarily require continued national level efforts.

Persistent Poverty Despite Growth. Regional stability coupled with relatively sound national macroeconomic policies and support for regional trade liberalization measures has increased trade and economic activity in the region. Central America's overall economic performance over recent years has been impressive. Real economic growth has averaged four percent and inflation in Guatemala, El Salvador, and Nicaragua has been reduced to single digits with Costa Rica and Honduras hovering at 10 percent. Both intra- and extra-regional trade has grown impressively. For example, since 1995 external trade has increased by almost 25 percent from \$19.5 billion to \$24.2 billion. Intra-regional trade increased by 56 percent from \$3.1 billion to \$4.8 billion. Regional real GDP for the Central American Common Market (CACM) countries surged by 26.7 percent and real GDP per capita increased by 7 percent from \$985 to \$1,054.

Stronger economic performance by the Central Americans has also resulted in substantially greater trade with the U.S. Total U.S. trade with Central America has surged to almost \$22 billion in 1999. The region's imports from the U.S. reached \$10.3 billion in 1999 which supports over 200,000 U.S. jobs. This figure accounts for 50 percent of the region's total imports and exceeds combined U.S. exports to India, Indonesia, Russia and South Africa. The rate of expansion of U.S. exports to Central America will depend on the levels of economic growth, on the reduction and/or elimination of tariff and non-tariff trade barriers, and on increased purchasing power of the majority of Central Americans. Trade has grown impressively and the export sector in each country has been transformed and become more diversified. However, the non-export sectors which accounts for the bulk of employment continue to be characterized by low productivity and investment.

Notwithstanding these economic achievements and recent gains in reducing poverty in several Central American countries, poverty rates remain too high. Average per capita GDP for the region as a whole is still below its pre-crisis (1980) level, and, although comparable definitions and reliable data are not available, most Central American countries, according to some definitions, have poverty rates ranging from 50% to 70%. Poverty is widespread and the absolute numbers of poor continue to grow. A highly skewed income distribution continues to hamper poverty reduction. The region as a whole continues to make slow progress in improving the welfare for the majority of its citizens. According to the United

Nations, the region's human development index overall has inched forward from 0.61 in 1994 to 0.67 in 1999. There are also marked differences among the countries in terms of human development index: three countries are at the top of Latin America (Costa Rica, Belize and Panama) and four are among the lowest in the hemisphere (Guatemala, Nicaragua, Honduras and El Salvador).

Regional Integration. The seven countries of the region have advanced regional mechanisms to improve internal collective economic and environmental planning, and moved forward in bilateral interactions with the U.S., other countries and international organizations, as a way of compensating for their small size. Regional cooperation is most evident in the economic arena despite the fact that different visions exist around the region about the type of integration (economic, social, and/or political) that is considered necessary and possible. There are differences in the degree of interaction and interdependence among the economies themselves: Guatemala and El Salvador are heavily dependent on internal markets; Panama and Honduras focus more on external markets; Nicaragua and Costa Rica are less dependent on the Central American market.

While internal conflicts that plagued the region are past, latent border disputes between Belize/Guatemala, Nicaragua/Honduras, and Costa Rica/Nicaragua threaten economic integration and other regional cooperation efforts. These border disputes must be arbitrated adequately and kept separate from needed coordination on broader regional issues and problems. Fortunately, thus far, regional leaders and institutions such as SIECA and SICA have played a key role in stemming the spillover of these border disputes into the regional cooperation agenda. The OAS is stepping forward to serve as a mediator.

The economic integration process will clearly become more complex in the years ahead. In the past, the driving force was primarily to promote a closed, import substitution common market. Now integration faces a much more complex set of factors:

- a) promoting development of societies with asymmetric economies and more vocal, diverse societies;
- b) accepting participation of regional civil society groups demanding a say in the direction of integration and the implications of globalization; and
- c) adjusting to more aggressive C.A. entrepreneurial forces consolidating markets to maintain a competitive edge in a global economy.

In the past, integration processes were very much directed by the CA Presidents without much debate. Now, actions and decisions on integration occur within the context of democratic societies with open debate and expression of opinions. Integration will proceed in areas of common interest even though all the countries may not participate in a given initiative. Examples include the recently concluded northern tier (Guatemala, El Salvador and Honduras) country trade agreement with Mexico, the harmonized customs procedures between Guatemala and El Salvador, and the more conservative moves on privatization by Costa Rica and Nicaragua.

Global Competition. The influence of the global economy is increasingly evident throughout the region. The impact of new information technologies is growing, as is the development of strategic alliances among Central American entrepreneurial groups to maintain competitiveness. The trends show the gradual opening of Central American economies and the elimination of high cost, technologically stagnant parastatal monopolies.

However, according to economists and astute regional business leaders, the “easy” returns from initial trade/economic liberalization policies and sustained regional stability that have spurred the rapid increase in trade during the 1990’s may be over. There are concerns that the region may be losing dynamism. One potent factor has been NAFTA which has become a more established mechanism and appears to be diverting investments from the region to Mexico which are taking advantage of Mexico’s NAFTA benefits, the size of its market, and uniformity of its regulations which the region lacks. With the recent passage of the Trade and Development Act of 2000 which contains trade benefits for the Caribbean Basin Initiative countries, the CA region will benefit, but global competitive challenges will remain. Another factor is that within the new global competitiveness context the region needs to increase investments in education and health which lead to a more productive and competitive labor force. The region will have to compete for investors looking for productive labor forces, efficient up-to-date energy, communications, supportive infrastructure systems, and enabling legal, regulatory and judicial frameworks. The Central American Business Institute’s (INCAE) competitiveness study highlights that Central America is increasingly considered one region by the rest of the world. The regional economy (Belize to Panama) is significant with a GDP of \$59.5 billion and a population of 36.5 million which is growing at an overall rate of 2.6 percent. Individual country improvements in these investment factors while important will not be sufficient to attract the level of outside investment and trade required to sustain the growth rates needed to reduce poverty. Concerted regional action and cooperation will be needed to increase regional competitiveness in the global economy. The most promising industrial clusters where Central American countries have competitive advantages include: agro-industry, eco-tourism, textiles and electronic components.

Closely linked to competitiveness issues is the need for the region to address the increasingly negative environmental impact of certain industries and agro-processing firms which are polluting their surrounding environment, threatening the health and safety of workers, and increasing cost of inputs. According to INCAE, addressing these problems not only makes good sense for the region in protecting its natural resources, but also in maintaining competitiveness by reducing costs and in marketing its products and services.

Hurricane Mitch and a Heightened Awareness of Vulnerability. The widespread devastation caused by Hurricane Mitch, as well as the outbreak of forest fires in 1998 (which destroyed almost 1.5 million hectares of forest) affected the entire region. These climatic events were exacerbated by a lack of natural resource management and have set back socioeconomic progress, especially in Honduras and Nicaragua. The natural disasters also underscored the degree of interdependence and close linkages that exist

among the CA countries. The interruption of road transport and intra-regional trade, the deterioration of the natural resources in the main river basins (those shared by two or more countries cover 65% of the Central America's territory), the consequences of deforestation, and the poor health conditions prevailing in border areas point to the regional impact of the disasters. Historically, the CA region is at very high risk of floods and other natural disasters. The CA Presidents meeting in Guatemala in October 1999, recognized the need for adequate measures of disaster preparedness and mitigation to reduce this vulnerability. They also identified water management and forest fire prevention as key priorities in this respect. Despite progress on regional environmental management of natural resources, deforestation continues at the rate of 450,000 hectares/year according to CCAD's 1998 State of the Environment Report and there is increasing risk for the 704 protected areas (only 391 of which have a legal declaration) that form Central America's System of Protected Areas. Closely linked to poor watershed management is the increasing negative impact of deforestation on the quantity and quality of water in the region and the need for transnational cooperation on shared watersheds.

HIV/AIDS. HIV/AIDS continues to be a growing problem in Central America as it spreads along the highways and industrial corridors. The north coast of Honduras still has the highest infection rates in the general adult population, as high as 14% in some sites. The Central American epidemic continues to expand primarily through sexual behavior with multiple partners, with youth and men disproportionately affected. The economically productive age group of 15-49 years has been the most affected. Migration increases the social contexts that make certain groups particularly vulnerable to HIV/AIDS and the Mesoamerican isthmus has historically high levels of cross-border movement. The unstable economic environment provoked by Hurricane Mitch has increased migratory movement and the contexts which favor the spread of the disease. While there is greater awareness about HIV/AIDS, it is still not a high profile problem among senior level decision makers. The case of Africa where inattention led to the now overwhelming socio-economic and human crisis serves as a stark reminder of the consequences of that inattention during the early phases of the HIV/AIDS pandemic.

C. U.S. Foreign Policy Interests and Central American Goals

U.S. interests in the region continue to coincide with the goals which the Central Americans themselves expressed in the Alliance for Sustainable Development in 1994. The Central Americans adopted an action agenda to increase prosperity and insure democratic openness in the region. U.S. interests include:

- Sustaining peace and stable democratic systems across the region;
- Facilitating the conditions for expanded two-way trade and investment between the U.S. and Central America;
- Reducing illegal immigration and narcotics trafficking by reducing poverty and collaborating on cross-border enforcement needs;
- Stemming global and regional threats from environmental and resource degradation and loss of bio-diversity; and

- Containing the spread of communicable diseases especially HIV/AIDS.

These interests and the CA goals have coincided remarkably over the past four years as they have shaped the agendas and content of the CA-US Presidential Summits held in San Jose, Costa Rica in 1997 and in Antigua, Guatemala in 1999. These U.S. interests also form part of the Mission Program Plans of U.S. Embassies and the Strategic Objectives of the bilateral USAIDs whose development assistance programs focus on national level problems of sustainable development. (See Matrix of CA USAID Mission Strategic Objectives in Annex 1.)

D. Rationale for the Regional Strategy and Areas of Focus

The trends above paint a sobering picture of the challenges facing the region and also a recognition that many of the problems require concerted action at the national level with the help of bilateral donors such as the U.S. and multilateral institutions. In addition, addressing these problems coincides with regional U.S. policy interests. There are specific areas where the USAID/G-CAP can continue to make a substantive contribution in helping the region deal with regional issues, applying our regional operating principles to ensure that the regional program offers value-added programs and services.

USAID/G-CAP was also guided by the strategic and resource parameters which the LAC Bureau provided the Mission following the October 1999 meeting in USAID/W, including consideration of the Central America 2020 report recommendations.

USAID/G-CAP engaged in an intensive consultative process on the strategy with USAID mission technical offices, LAC and G Bureaus as well as with our regional counterpart institutions. This process insured that the strategy addressed appropriate areas for the regional program as well as to insure complementarity with USAID Mission programs. Overviews of the strategic objectives and intermediate results were presented to the CA USAID Mission Directors and the heads of SICA and SIECA who confirmed that the strategy was appropriately addressing key regional problems.

The Regional Strategy adheres to the principles that have guided the regional program during the past five years. Specifically, the strategy :

- Focuses on problems that regional institutions such as SICA, SIECA and others have identified with the national governments as appropriate for regional intervention, or those which more than one government consider a priority and which are also consistent with U.S. foreign policy goals;
- Addresses problems that have significant cross-border effects or require a regional initiative.
- Takes on activities that do not duplicate USAID's national-level bilateral efforts, but support and complement them.
- Does not expand into themes that are more effectively handled by other USAID operational units.

- Builds on strengths and successes of our current strategy (e.g., established credibility with regional institutions and mechanisms); and
- Capitalizes on opportunities to extrapolate site-based successes to the region.

The Strategy also takes into account USAID non-presence country policy and principles with respect to the participation and support for activities in Belize and Costa Rica. Specifically participation by these countries is necessary so as to not undermine the objectives of the regional program. USAID/G-CAP will use R-4 reporting and other USAID monitoring processes on the overall funding of SO activities in these non-presence countries.

While increased investments in education are an important factor for increasing competitiveness of Central America, USAID/G-CAP determined that these initiatives are being carried out through bilateral programs. Issues such as harmonization of educational standards are more appropriately addressed by the LAC Bureau's region-wide educational policy program which has the technical staff, resources and can also foster wider dissemination of hemispheric best practices in education.

E. Regional Strategic Objectives

An overarching goal of the regional program is sustainable regional development. The Strategic Objectives which are outlined below specifically take into account the development context of the region, adhere to the regional program principles and support U.S. interests and goals:

SO 1: Increased Central American Competitiveness in Global Markets

This SO will assist the region in developing improved trade and investment policies; promoting legislation and regulatory mechanisms for energy and telecommunications that can increase private investment and better service delivery in rural areas; and fostering better functioning labor markets while protecting core labor standards.

SO 2: Improved Environmental Management in the Mesoamerican Biological Corridor

This SO will help improve environmental management in the Mesoamerican Biological Corridor (MBC) and the region by promoting sustainable protected area management in selected MBC sites, promoting regional certification of environmentally sound products and services, harmonizing environmental regulations, and fostering increased use of less polluting technologies.

SO 3: An Enhanced Central American Capacity to Respond to the HIV/AIDS Crisis

This SO will assist Central Americans develop an enhanced capacity to respond to the HIV/AIDS crisis by building a solid and multifaceted Central American network which

links expertise for the prevention, control and management of the HIV/AIDS epidemic. Consistent and correct condom usage by high-risk populations and reduction of risky behaviors will also be supported to reduce HIV/STD transmission.

SO4: Strengthened Municipal Finance Systems for Local Governments in Central America.

This SO will assist Central Americans to establish the building blocks for sustainable, equitable, and long-range finance and investment strategies for their growing communities by addressing key bottlenecks to access to credit by local governments and in municipal capacity to deliver services demanded by citizens.

F. Other Donor Programs

The regional program has played a catalytic role in donor coordination during the previous strategy period. The close relationship established with regional institutions such as SIECA and the Environmental Directorate of the Secretariat for Economic Integration has enabled the Program to have a unique comparative advantage in donor coordination and in leveraging resources. For example, the policy agenda and support provided to the CA Ministers of Labor resulted in the initiation in 1998 of a joint USAID/IDB labor market modernization program that leveraged \$4 million in IDB funding. In the environment, we have coordinated closely with the Danish program in the Gulf of Fonseca as well as with the Swedish government in supporting the Central American Commission for Environment and Development and on the World Bank's Meso-America Reef Initiative because of USAID's catalytic coastal resource management activities. The regional HIV/AIDS program has been instrumental in developing a Memorandum of Understanding with United Nations AIDS program that led to a recent CA congress on HIV/AIDS and support for regional initiatives by Japan and Norway. The regional program plans to continue playing this critical brokering role in the future.

With the co-financed USAID/European Union Central American 2020 activity as a backdrop, USAID/G-CAP has outlined areas where our regional strategy and theirs can be complementary. The background studies and recommendations flowing from this effort were taken into account in the preparation of this strategy and will serve to guide future coordination with the EU. Because no other donor has a true regional presence (regional activities are frequently just an adjunct to a specific bilateral donor program), USAID/G-CAP will continue to play this unique role in the region. We also see expanded possibilities to tap and coordinate under the U.S.-Mexico cooperation agreement, Mexican expertise in the area of environment and HIV/AIDS.

In the municipal finance and development area several donors are active. For example, the PROMUNI program now managed by the Central American Bank for Economic Integration (CABEI) has received \$50 million from Germany and Taiwan. The IDB has completed the design for a \$28 million Municipal Development program in Guatemala and is collaborating with the World Bank on a \$80 million Local Development program

in El Salvador. The Germany's GTZ has programs for municipal finance activities with the municipal development institutes in El Salvador, Guatemala, and Nicaragua.

G. Customer Focus

The regional program has a varied and complex set of customers: the Central American regional institutions such as SIECA, SICA and its Environmental Directorate; the CA USAID Bilateral Missions; US Embassy staff in the four CACM countries as well as Belize and Panama; and implementing partners with broader regional interests and programs such as The Nature Conservancy, World Wildlife Fund, and Population Services International among others. In addition to consulting with these customers on regional trends and problems, USAID/G-CAP has also shared and commented on their strategic plans and concept documents; a process which confirmed the problems, enriched their and our strategy development process, and also highlighted potential areas for future focus and ways to improve program implementation. For example, our strategic objective for the environment draws heavily on the Environmental Action plan developed by SICA's Environmental Directorate. Similarly, USAID/G-CAP has relied on the recent evaluations of the HIV/AIDS and regional environmental program which specifically sought customer feedback that USAID/G-CAP could use in shaping our regional program over the next five years.

RUDO/LAC's regional program similarly has a varied set of customers, ranging from the regional banking institutions (CABEI), regional federations of municipal associations such as the Federation of Municipal Associations for Central America (FEMICA), to private and commercial sector institutions representing the construction industry (Federacion de las Camaras de Industrias de la Construcción –FIIC-), the finance industry (Union of Housing Finance Institutions UNIAPRAVI-ACENVI—Central America Chapter), and environmental NGOs throughout Latin America. RUDO/LAC will bring its network of Latin American institutions, the Latin America and Caribbean Urban Network (LACUN), comprising more than 30 organizations, both regional and bilateral, to transfer experiences from South America and Caribbean to Central American countries.

PART II: Proposed Strategic Plan

Strategic Objective 1: Increased Central American Competitiveness in Global Markets

A. Linkages to Agency Goals and Objectives

SO1 contributes directly to USAID Strategic Plan Goal 1: “Broad-based Economic Growth and Agricultural Development Encouraged” and USAID Objective 1.1, “Critical, Private Markets Expanded and Strengthened.”

The strategy also is consistent with recent USAID trade-related guidance seeking to: 1) maximize the contribution of trade to development and the contribution of development to mutually beneficial trade; and 2) foster the broad participation by developing countries in an open, rules-based global trading system through assistance programs that increase the capacity of developing and transition countries with respect to sound, trade-related policies, effective public institutions, competitive private sectors and informed civil societies. As such, field missions are encouraged to develop programs to help developing and transition countries strengthen their capacities to participate in the World Trade Organization (WTO) system and compete in global markets.

B. Linkages to U.S. and Regional Central American Goals

1. U.S. Foreign Policy Goals

The SO responds directly to the Summit of the Americas Action Plan, adopted by all Western Hemisphere democracies in Miami in December 1994 and reaffirmed in Santiago, Chile in April 1998. Specifically, it addresses four of the seven areas under the Summit goal of Promoting Prosperity through Economic Integration and Free Trade. These areas are: 1) the Free Trade Area of the Americas (FTAA); 2) capital markets development and liberalization; 3) energy cooperation; and 4) telecommunications and information infrastructure. The Summit Action Plan calls for FTAA negotiations to be concluded no later than 2005. The SO also supports the implementation of the Trade and Investment Framework Agreement signed March 19, 1998 in San Jose, Costa Rica by the U.S. Trade Representative and the Central American trade ministers.

The following excerpts from President Clinton’s January 29, 2000 address to the World Economic Forum in Davos, Switzerland underscores the importance the USG places on open markets and freer trade as the key to sustained economic development:

“I think we have got to reaffirm unambiguously that open markets and rules-based trade are the best engine we know of to lift living standards, reduce environmental destruction and build shared prosperity. This is true whether you’re in Detroit, Davos, Dacca or Dakar. Worldwide, open markets do create jobs. They do raise incomes. They do spark innovation and spread new technology...”

“Trade is especially important, of course, for developing nations...developing countries that chose growth through trade grew at least twice as fast as those who chose not to open to the world. The most open countries had growth that was six times as fast...”

On the issue of labor standards and labor markets, the USG has proposed the creation of working groups in both the FTAA and the WTO to examine linkages between trade and labor.

2. Regional Central American Goals

Increased Central American Competitiveness in Global Markets is the top priority for the Central American regional agenda. Moreover, expanded trade with the rest of the world is a major national program goal for each of the Central American countries. The emphasis on trade expansion is contained in the Alliance for Sustainable Development (ALIDES) signed by the seven Central American heads of government in October 1994. SICA's draft Strategy for the Transformation and Modernization of Central America, which will be presented at the Madrid Regional Consultative Group meeting, highlights competitiveness and economic integration themes.

SO1 supports Central America's efforts to advance on its own sub-regional economic integration agenda by further reducing its intra-regional trade barriers enabling the region as a whole to be a more efficient and competitive economic unit. Another reflection of Central America's regional focus on trade issues is its joint efforts at negotiating free trade agreements with outside trade partners. The ability to engage in region-wide, trade-related activities through SO1 enables USAID/G-CAP to effectively support Central America's regional approach to trade.

Central America has provided enthusiastic support for the FTAA hemispheric initiative, and in recognition of the region's increased abilities to manage trade matters, all five Central American Common Market (CACM) countries have been assigned leadership roles throughout the FTAA negotiation process. In the current FTAA negotiation phase, Guatemala has assumed the chair position for the Consultative Group on Smaller Economies (CGSE) – especially important for developing countries in the hemisphere, and Costa Rica chairs the dispute settlement negotiating group. SO1 activities will facilitate continued Central American support for, and participation in, the FTAA process.

Advancement of the WTO agenda is an important Central American trade objective, and the region has actively participated in the WTO process. All the countries are WTO members and ratified the Uruguay Round of multilateral trade agreements thereby committing their governments to implement a number of measures to reduce tariff and non-tariff barriers to international trade, improve customs valuation and administration procedures, and strengthen the enforcement of the trade related aspects of intellectual property rights protection (TRIPS). While not endorsing the formal linking of compliance with core labor standards as conditions for free trade agreements, the region has demonstrated a willingness to improve enforcement of workers rights and promote

enhanced labor management relations. SO1 will have a major focus on supporting Central American efforts to meet WTO commitments.

Central America's interest in enhancing its competitiveness in global markets was demonstrated in September 1996 when the region's presidents, with support from INCAE and Harvard, launched "The Competitiveness Project", a major initiative to develop a regional strategy for international competitiveness and sustainable development. In June 1999 INCAE and Harvard presented to the region's presidents a comprehensive plan entitled, "Central America in the 21st Century: An Agenda for Competitiveness and Sustainable Development." The Agenda calls for national and regional action in a number of priority areas including both extra- and intra-regional trade liberalization, better functioning labor markets and human resource development, and harmonization of sound fiscal and monetary policies. The Agenda encourages upgrading the region's telecommunications, energy and logistical corridor by opening up those sectors to private investment and competition. Governments were urged to switch their roles from infrastructure services providers to regulators of the private service providers. The Agenda also recommends increased regional action to strengthen the prudential supervision of regional financial markets.

C. Problem Analysis

Faster growth needed to reduce poverty – trade and investment key. While the region's overall economic performance over recent years has been moderately strong with annual economic growth rates averaging over 4%, substantially higher real growth rates, at least in the 6-8% range, are needed to make a major dent in reducing poverty rates. Expanded trade and greater investment are particularly important toward achieving such growth.

Market Access, or the "Demand Side." Trade expansion requires that Central America increase its access to outside markets, and thereby the demand for its products, through the negotiation and implementation of reciprocal bilateral and multilateral free trade agreements. The region should aim to take full advantage of greater trading opportunities presented by world tariff reductions resulting from successive rounds of World Trade Organization (WTO) negotiations and those anticipated through the FTAA. This requires full compliance with the commitments made by each of the countries upon joining the WTO in 1995 and the yet-to-be defined requirements under the FTAA. Central America also must do its part to maintain preferential access to important markets such as the U.S. and the European Union by meeting the eligibility requirements unilaterally prescribed by those trading partners. The recently enacted CBI enhancement legislation has conditions on compliance with WTO obligations for example. Central America must greatly enhance its ability to understand and operate under the rules of the world's evolving trading system to open doors to new markets, and widen doors to existing markets. To implement these actions, trade negotiators and administrators need to be trained. While Central America has a number of highly qualified trade experts, the numbers fall far short of what is needed.

Enhanced Competitiveness, or the “Supply Side.” To take advantage of greater market access achieved through trade agreements, the region must greatly improve its trade competitiveness. This requires a number of primarily national policy actions such as sound macroeconomic policies, financial sector reform, increased investment in human resources, and modernization of public sector operations. However, important competitiveness-enhancing measures requiring joint action by two or more of the Central American nations also are needed. First and foremost is the elimination of the remaining barriers to intra-regional trade and investment flows thereby improving the economic efficiency of the region. This will also create a larger open market more attractive to regional and outside private investment especially energy and telecommunications and trade partners willing to negotiate free trade agreements.

Central American leaders understand this and have adopted an outward-oriented regional economic integration model. They have shown the political will to initiate reduction of both intra-regional and outside trade barriers. However, they lack the technical talent to accelerate this process. Moreover, while public support for increased trade has grown in recent years permitting the gains to date, a much broader base of support will be needed to overcome protectionist objections and further reduce trade barriers.

Communication and cooperation between the public sector trade policy officials, trade negotiators, and trade agreement administrators and the business sector must be strengthened. Adequate participation of a broad range of civil society groups in the trade policy reform process is required. There is a need to forge a special relationship with the private sector who will be the key actors in expanding trade. They will decide which markets to penetrate with which products. They will face stiff competition both from within and outside the region. The private sector’s support for trade liberalization and market integration is absolutely essential to its ultimate success as reflected in the encouragement of the Americas Business Forums in tandem with the FTAA ministerial process. Private sector support is needed not only in gaining executive and legislative branch approval of specific trade and investment measures, but also as technical back up to the government trade negotiating teams. Private businesses possess the product specific technical expertise needed to identify and recommend to governments the elimination of sophisticated non-tariff barriers used by trade partners.

As the Central American leaders were advised by President Clinton during the March 1999 U.S.–Central American Summit in Antigua, the region must take measures to strengthen its financial sectors to prevent the types of financial crises recently afflicting other regions. This is increasingly urgent as Central America is becoming more prone to potential financial crises as the result of greater intra-regional investment flows and far higher levels of cross border transactions financing record intra-regional trade. The region lacks both sufficient prudential financial sector supervision at the national level and an effective regional coordination and financial information sharing mechanism.

Opportunities and Remaining Challenges

The opportunity for Central America to increase its access to hemispheric and global markets has never been greater. While temporarily stalled, the WTO plans to launch a new round of multilateral trade negotiations with the intent to reduce worldwide protection on agricultural products, liberalize trade in services, and expand market access is of particular importance for Central America. The WTO's goal of building a better global trading system for agriculture, an area in which Central America possesses marked comparative advantage, is especially promising for the region. WTO members' objectives in eliminating export subsidies and trade-distorting domestic support programs would substantially increase access for Central American agricultural products to world markets – especially in the high income, developed economies. Gearing up technically to enable Central American trade officials to participate effectively in these talks is a major challenge for the region. This is urgent as, while overall comprehensive WTO talks are stalled, WTO members will soon initiate negotiations on agriculture as called for in the 1994 Marrakech Agreement ratified by all WTO members.

The current program has invested substantial resources in educating Central American policy makers and technicians on all aspects associated with the benefits and responsibilities of WTO membership. In addition, technical assistance has been directed toward upgrading regional trade regulation, including customs streamlining, consistent with WTO standards. The strategy will build on this base by preparing Central American trade officials for more effective participation in the WTO's next negotiating round.

Another opportunity is found in the FTAA process, which has entered into its most intensive negotiation phase. Once completed, the FTAA will unite the economies of the Western Hemisphere under a single free trade agreement. The establishment of the FTAA will provide Central American exporters greater access to hemispheric markets, but also further open Central American markets to outside competition. The main challenges for the region will be to increase its competitiveness in both internal and outside markets and to prepare itself to meet the eligibility requirements anticipated under the FTAA.

A near term opportunity for the region will be expanded access to the U.S. market under the recently passed Trade and Development Act of 2000. CBI benefits under the Act are conditioned on compliance with WTO and other trade obligations, respect for internationally recognized worker rights and counternarcotics certification. Also, a beneficiary must participate in the negotiations toward completion of the FTAA.

Additional opportunities are derived from the region's own notable trade policy achievements in recent years. The challenge now is to accelerate its capacity to follow through and deepen these reforms to maximize economic performance. For example, Central America has reduced its common external tariff rates to a range of 0 (for capital goods and production inputs) to 15 percent (for final products). This has encouraged local industries to become somewhat more competitive in Central American markets, and improved the incentives for investing in the production of goods for extra-regional

markets. However, effective rates of protection are still extremely high in several industries and in the agricultural sector. Further unilateral reductions in tariff rates will accelerate the region's competitiveness as the time approaches for further tariff reductions through the WTO and the FTAA.

Intellectual Property Rights (IPR) will remain a continuing challenge. Over the last few years with USAID support, the region has greatly increased awareness and understanding of how stronger IPR protection is important to Central American development objectives as well as meeting international obligations. IPR laws have been upgraded and enforcement reinforced. Several countries have completed negotiations with the U.S. on bilateral IPR agreements and have initiated their implementation. Now even tougher challenges are being presented related to electronic software and biotechnology IPR issues to which the region must be able to respond to remain in compliance with present and future trade agreements expanding market access. Yet much remains to be done, institutional capability to monitor and enforce IPR agreements is still very limited at the national level. And private sector participation is needed to support IPR enforcement and avoid trade sanctions when agreements are not enforced.

The rapid advances in telecommunications and information technology present enormous opportunities for the region to enhance its competitiveness, lower transactions costs and accelerate effective integration into a global economy. However, the public sector cannot garner the financial resources required to acquire such technology. Some progress has been made toward opening up these sectors to private investment, but a more complete liberalization throughout the region is necessary to permit Central America to maximize its economic gains from technological advances.

In the energy and telecommunications sectors, the current program has succeeded in increasing awareness and understanding of the importance of opening these sectors to private investment. Two countries of the region have made notable advances, two others are on their way, and a fifth country is struggling to initiate such reform. The competitiveness SO will draw from the valuable experience gained where energy and telecommunications sectors have been liberalized to promote accelerated reform in countries that have lagged behind. Moreover, even in those countries where the most progress has been achieved, stiffer challenges remain as regulatory commissions break new ground in dealing with complicated regulatory issues in high technology sectors. The strategy envisions support for advanced training for regulators. With respect to the energy sector, as the region expands and deepens its market opening process, the new SO will place more attention on promoting the development of a truly regional energy market, where producers and buyers of electric power will interact across national borders, resulting in a much more efficient energy market.

A critical element to achieve increased Central American competitiveness in global markets will be the establishment of more equitable and better functioning labor markets. The region's labor ministers have increased their awareness of trade and labor issues associated with the hemispheric FTAA process and as a result they are beginning to reorient their own national programs toward greater protection of core labor standards and improved labor

management relations. However, for the region to advance on its competitiveness agenda, some degree of deregulation in the labor market will be required. Tough and sensitive issues will be faced as the region's governments seek to decontrol labor markets while maintaining adequate protection of core labor standards. Labor ministries still see their role as punitive and relations among government, labor, and business continue guarded and strained. Opportunities to discuss concerns and reach positive win-win approaches to face competitive challenges from the global economy are still limited and a regional approach provides a more neutral setting that can have a positive constructive role in this process.

The current program has increased the awareness among labor ministers and senior ministerial staff of the importance of protection of core labor standards and better labor-management relations, and has supported strengthening of the ministries' capacities in these areas. In addition, a social dialogue among business, labor and a wide range of civil society groups has gotten underway on how to improve the functioning of regional labor markets while maintaining protection of workers rights. A number of pilot activities are exploring innovative mechanisms to strengthen labor markets in the areas of dispute settlement, technical and vocational training, and occupational health and safety conditions. The new strategy will accelerate the social dialogue toward building regional consensus on labor market reforms consistent with social and economic objectives. It will also replicate and expand successful pilot activities throughout the region, seeking to leverage additional resources from other donors.

D. Results Framework

USAID/G-CAP will support Central American efforts to increase the region's trade competitiveness and readiness to participate in subregional, hemispheric and global markets. Increasing the potential for expanded trade contributes to higher levels of employment and incomes and supports the region's sustainable development objectives. The strategic objective will be achieved by: 1) promoting more open trade and investment policies, which will permit Central America to take fuller advantage of greater trading opportunities presented by an increasingly integrated world economy; 2) accelerating the Central America's own process of WTO-consistent, regional economic integration, making the region as a whole a more efficient competitive economic unit; and 3) supporting efforts to improve the functioning of regional labor markets while strengthening the protection of core labor standards.

Strategic Objective 1
**Increased Central American
Competitiveness in
Global Markets**

Intermediate Result 1
**More Open Trade and
Investment Policies**

- Increased public support for more open trade and investment policies
- World Trade Organization commitments met
- FTAA Business Facilitation Measures fully implemented
- Increased capacity to monitor and enforce intellectual property rights agreements
- Regional and national technical trade capacity strengthened
- Telecommunications sector liberalization expanded
- Energy systems liberalization expanded

Intermediate Result 2
**Accelerated Central American
Market Integration**

- Remaining intra-regional trade and investment barriers eliminated
- Regional investment and trade dispute mechanisms established
- El Salvador and Guatemala customs union established and models replicated
- Financial sector prudential supervision regulations harmonized

Intermediate Result 3
**More Equitable and Efficient
Labor Markets**

- Labor market and core labor standards social dialogue promoted
- Labor ministries' capacity enhanced

Intermediate Result 1.1: More Open Trade and Investment Policies

USAID/G-CAP will work with Central American and U.S. partners to support efforts to further open Central American markets. Reducing effective tariff protection will reduce continuing anti-export bias in the allocation of resources while providing the region with expanded access to new goods, services, and technologies required to elevate the region's competitiveness. Regional efforts to comply with World Trade Organization (WTO) commitments made by the Central American countries under the Uruguay Round of multilateral trade negotiations will be reinforced. USAID will support regional actions related to the next round of multilateral trade negotiations, especially in the areas of agriculture, subsidies, trade in services, telecommunications, and technology. Of particular importance will be support for completion of the eight FTAA business facilitation measures (BFMs) agreed to at the November 1999 Hemispheric Trade Ministerial in Toronto, Canada, as well as additional BFMs adopted by the hemisphere's governments throughout the FTAA process. Assistance will also be focused on increasing capacity to monitor and enforce Intellectual Property Rights agreements.

To achieve this IR, the following lower level results will be pursued:

Increased public support for more open trade and investment policies – Increased support for more open trade and investment policies will be encouraged through a combination of public awareness activities on trade policies and sustainable development and a coordinated policy dialogue with key regional actors. The policy dialogue will focus on measures where convergence of Central American sustainable development and U.S. foreign policy objectives has been established. Updated analyses of Central American trade, investment, labor, social and competitiveness trends will complement the policy dialogue. A more intense effort will be made to strengthen the participation of the private sector and other civil society groups in the regional trade policy dialogue.

World Trade Organization commitments met – During the new strategy period, USAID will focus more closely on helping the region meet WTO objectives in the areas of trade in services, including financial, telecommunications, information technology, and innovation. USAID will promote technical assistance and training in areas such as rules of origin, dispute settlement, technical norms, sanitary and phyto-sanitary standards, customs procedures and valuation, and anti-dumping safeguards should further support be needed.

FTAA Business Facilitation Measures fully implemented – To assist Central American efforts to fully implement the eight business facilitation measures USAID will support specialized technical assistance and training to the authorities in each country responsible for customs operations. Where necessary and appropriate, experts will be provided to assist with the drafting of trade and customs regulations aimed at: 1) streamlining procedures for the temporary importation of goods related to business travel, 2) developing new procedures to expedite express shipments, and 3) simplifying procedures for low-value shipment transactions. Technical assistance will reinforce regional efforts to develop national codes of conduct applicable to customs officials and to establish risk

management systems to allow for focusing of customs enforcement activities on high-risk goods and travelers while facilitating clearance and movement of low-risk goods.

Increased capacity to monitor and enforce intellectual property rights agreements – Strengthening protection of intellectual property rights has been a major emphasis of the USAID trade program and has contributed to the region being within reach of completing its commitments under the WTO's Trade Related Intellectual Property activities (TRIPS) and under U.S.-Central American bilateral IPR agreements. IPR will continue as a priority during the new strategy. Public education seminars, workshops and conferences will be expanded to accelerate momentum achieved to date in building Central American support for sound IPR protection. Highly specialized and focused technical assistance will be provided to the authorities of each country to assist with the drafting of further legislative initiatives required. Assistance will also be provided to improve national capacity to monitor and enforce IPR agreements. The USAID regional program has a comparative advantage in providing this specialized assistance. National IPR registries throughout the region will be strengthened with training in new IPR legislation and updated information system applications, including those made available on a grant basis from the U.S. Patent and Trademark Office. Best practices achieved to date will be replicated, such as assisting governments set up special IPR enforcement teams in the offices of the public prosecutors and with close coordination with national civilian police and customs police.

Regional and national technical trade capacity strengthened – Trade capacity building activities under this IR will have primary emphasis at the national level with training and technical assistance concentrated on the technical staffs of the region's trade ministries. This is because, notwithstanding considerable regional coordination and joint action on trade matters, the responsibility for the negotiation and administration of free trade agreements, including the implementation of WTO and FTAA commitments rests with national governments. The technical staff of the Central American Secretariat for Economic Integration (SIECA) will be strengthened to enable more effective technical support to the region's trade ministries and better coordination of the regional trade agenda.

Telecommunications sector liberalization expanded – One sector where particular importance has been placed on enabling Central America to take advantage of more open markets is telecommunications. Greater competition and increased private investment will enable Central America to accelerate its access to the latest technologies and management techniques applied in this sector, a key requirement for enhanced regional competitiveness in global markets. In addition, further liberalization of telecommunications will permit the countries of Central America to become more effectively engaged in the WTO basic telecommunications services negotiations leading to more open world basic telecommunications markets. USAID will support Central American efforts to demonopolize telecommunications markets through technical assistance in legal and regulatory reform. Highly specialized training will be provided to strengthen national superintendencies and regulatory agencies. Best practices achieved under the previous program will be replicated throughout the region. USAID/G-CAP will coordinate closely with USAID's Internet for Economic Development Initiative to tap their expertise and

resources to advance on policy issues and obstacles to increased use of e-commerce and other information technologies.

Energy systems liberalization expanded – USAID will also build on gains achieved to date in restructuring the region’s energy system and opening it up to private investment and competition. El Salvador and Guatemala have opened their energy sectors with USAID support. The best practices achieved through this experience will be disseminated throughout the region in support of restructuring efforts.

Under this IR, USAID will seek to extend the benefits of competition and private investment deeper into the region’s energy systems. Power sector restructuring efforts in Central America to date have focused upon establishing the frameworks for competitive national electricity markets. Power sector programs for rural electrification, renewable energy, and end-use energy efficiency, however, have just begun to receive the same level of attention. Expanded attention to these areas is needed to ensure the sustainability of Central America's power sectors and to maximize the socio economic competitive and environmental benefits resulting from the restructuring and privatization. The main objectives will be to: a) provide alternatives, recommendations, and strategies to the various governments in the region concerning approaches used within restructured and competitive power systems worldwide to address social and environmental issues (e.g., low-income programs, rural electrification, renewable energy, and end-use energy efficiency); b) assist the electricity cooperatives and municipalities in their restructuring to take advantages of the new opportunities presented under the electricity law; and c) attract private capital flows to the region for investments in these type of programs.

This effort will build directly on lessons learned under the Regional MITCH Energy Initiative (1999-2001) with its focus on (a) regional energy sharing advanced; (b) improved efficiency of the energy sector through restructuring; (c) promote renewable energy and equity (especially for economic reactivation). USAID will identify for further support energy sector areas under the strategy.

Intermediate Result 1.2: Accelerated Central American Market Integration

USAID/G-CAP will support efforts to make Central America a more efficient and competitive economic unit by helping to accelerate the Central American process of “trade creating, WTO-consistent, sub-regional economic integration.” This IR will be achieved by: 1) helping eliminate remaining intra-regional trade and investment barriers; 2) establishing effective intra-regional trade and investment dispute resolution mechanisms; 3) promoting a fully operational El Salvador/Guatemala customs union and its replication in other countries; and 4) harmonizing and coordinating regional prudential supervision practices for banks and financial companies.

To achieve this IR, the following lower level results will be pursued:

Remaining intra-regional trade and investment barriers eliminated – USAID has provided crucial support toward reorienting Central America’s economic integration model to one now more reliant on market forces and more open to the rest of the world. However, a recent USAID financed study by a Central American think tank revealed that despite substantial progress toward reducing intra-regional trade barriers, there still remain substantial obstacles to the free flow of goods and services in the region. These results were confirmed by a recent study conducted by SIECA. Remaining obstacles to the free flow of goods in the region include exclusions for a few items (coffee, sugar, petroleum derivatives, alcoholic beverages, ethyl alcohol and wheat flour), import surcharges, not fully harmonized customs procedures, and arbitrary use of safeguard mechanisms to impose high tariffs on specific products, primarily agricultural. Under this IR, USAID will support Central American efforts to press for the elimination of these remaining trade barriers permitting the region to become a more efficient economic unit better able to compete in global markets.

Regional investment and trade dispute mechanisms established – As remaining barriers to trade and investment are eliminated, there are bound to be disputes that arise among the countries regarding adherence to the more open trade and investment policies. Adequate mechanisms to handle these disputes do not exist. Central American countries are all members of the WTO and therefore can take their trade disputes to the WTO. However, this is usually a long and complex process, which many countries prefer to avoid. Failure to resolve such disputes, and resolve them in a timely manner, will seriously impede trade-related economic growth for the region. In recognition of the Central America’s growing interdependence in trade and investment, the region’s presidents are promoting an initiative to establish more effective trade and investment dispute resolution mechanisms. USAID will provide technical assistance and training to support the design and initiation of such mechanisms.

El Salvador and Guatemala customs union established and models replicated – One of the more important specific initiatives under this IR will be follow-through support to the ambitious customs union initiative of Guatemala and El Salvador, with Honduras acting as an interested observer. This initiative seeks ultimately to eliminate customs checks for all goods passing between the two countries. USAID assistance was instrumental in addressing the first round of technical challenges in developing a fiscal and customs administrative framework supporting such a customs union. Under this IR, technical support will concentrate on technical solutions to remaining trade differences preventing full implementation of the customs union, i.e., one unified customs station rather than two. USAID will support the dissemination of this model and provide technical assistance in replicating it to other interested Central American countries.

Financial sector prudential supervision regulations harmonized – Efforts to reduce the region’s vulnerability to financial crises will be supported. Technical assistance will be provided to assist in harmonizing financial sector prudential supervision. Full implementation of the Basle Core Principles for Effective Banking Supervision will be encouraged. Technical experts will be made available to assist Central American efforts to develop and implement prudential rules and requirements, including capital adequacy,

credit risk management, market risk management, and internal controls. Training activities will be designed to strengthen the technical staffs in national bank superintendencies in areas related to regional harmonization and coordination of financial sector information and monitoring. Particular focus will be placed on accounting standards, scope and frequency of financial institution reporting, confirmation of the accuracy of information submitted to the superintendency, and appropriate treatment of confidential information provided.

Intermediate Result 1.3: More Equitable and Efficient Labor Markets

Enhanced competitiveness in global markets requires that Central America improve the functioning of its labor markets while also strengthening the protection of core labor standards. Improved labor-management relations are essential to achieve total quality production and competitiveness required by a global marketplace. Moreover, satisfactory protection of core labor standards is necessary to maintain access to important markets. In addition, for Central America to take maximum advantage of the increased opportunities presented by more integrated regional and global markets, its labor force must be better trained and more productive. Also, rigidities in the region's labor market must be addressed by allowing for sufficient labor mobility to permit timely reallocation of workers to newer and more competitive economic activities.

To achieve this IR, the following lower level results will be pursued:

Labor market and core labor standards social dialogue promoted – USAID will support an expansion, acceleration, and deepening of regional and national dialogue on labor market and workers rights issues with the aim of achieving as great a regional consensus as possible on how to improve the functioning of labor markets while satisfactorily protecting workers rights including women. Participation in the dialogue will include officials and representatives from government, the private sector, labor organizations, academic institutions, and civil society groups. As part of the expanded dialogue process, a number of economic and social relationships between trade and labor will be thoroughly examined. These include: 1) identifying the basic characteristics of a well functioning labor market and how they are related to working conditions; 2) looking at the effects of increased international trade and investment on the levels and composition of countries' employment; 3) examination of the relationship between increased openness in trade and investment and the scope of the structure of basic social protections and safety nets in developed and developing countries; 4) reviewing the relationship between economic development, international trade and investment, and the implementation of core labor standards; and other topics to be identified by dialogue participants as the process advances. The social dialogue will be updated to incorporate the latest issues and developments emanating from hemispheric and global trade fora, including the WTO and FTAA processes.

A key part of the social dialogue will be a more direct focus on the importance of protecting core labor standards. A top priority will be to disseminate information related

to the rationale and requirements of the International Labor Organization's (ILO) approach toward achieving greater observance of fundamental workers rights. In June 1998, the ILO, consisting of government, business and labor representatives from all the member nations, including the U.S. and all the Central American countries, adopted a new "Declaration on Fundamental Rights and Principles at Work and Its Follow-up." The declaration introduced a new mechanism to hold member states accountable for providing basic labor rights, defined as freedom of association and the effective right to collective bargaining, the elimination of all forms of forced or compulsory labor, the effective elimination of child labor, and nondiscrimination in occupation and employment. Dissemination will be done through a public education campaign aimed at the general public, complemented by various levels of specialized and custom tailored training of public officials, labor ministry technicians, private sector representatives, labor organizations and other civil society groups. In all cases national level activities on specific labor issues will be closely coordinated with bilateral USAID missions and U.S. Embassy labor attachés through tailored consultations and dialogue.

Labor ministries' capacity enhanced – Parallel to the regional and national social dialogue processes, and to a great extent drawing from the results of the dialogue, the new strategy will include a policy dialogue component. Central American governments will be encouraged to accelerate the process now underway toward the redefinition of the roles of the region's labor ministries permitting more effective protection of workers rights while simultaneously contributing to a better functioning labor market. In addition, the region's governments will be asked to demonstrate a credible commitment toward upgrading their labor ministries. Otherwise, expanded technical assistance will only provide short-lived and marginal results. USAID will continue to support the regional ministerial dialogue established under our previous program.

With solid commitment from the region's governments, and building on the areas of consensus reached through the social dialogue, USAID will support the implementation of specific measures to enhance labor market performance and strengthen the protection of workers rights. Technical assistance and training will be provided to reinforce the labor ministries' efforts to upgrade their capacities in specific areas, such as promoting increased mobility in the labor force through better job training and placement. Increased attention toward fostering working partnerships with labor and the private sector will be encouraged.

A key element of this IR will be to attract other donors and international lending agencies toward fuller participation in the region's social dialogue and in funding national labor ministry capacity building activities. The current joint USAID/IDB labor market modernization program is providing some resources for this effort and the recent DOL/USAID/IDB labor meeting was successful in attracting additional resources to support activities in areas such as occupational health and safety training. Not only are the additional resources necessary to effectively upgrade the region's labor ministries, a broader participation of the international community is desirable to help defuse particularly sensitive labor issues and facilitate the achievement of regional consensus.

E. Critical Assumptions

Further consolidation of regional peace and democratic processes is essential to the achievement of increased Central American Competitiveness in Global Markets. In order for the policy reforms proposed under this strategic objective to be sustained, sufficient public support is needed over the medium and longer terms. Constructive input from all segments of society is possible only under free and open democratic processes.

Another critical requirement for sustained Central American success in increasing its competitiveness in world markets is the consistent application, over the long run, of sound macroeconomic policies. Countries that lose fiscal discipline, even if they recover it relatively quickly, will not realize their potential for stimulating private investment. Frequent tinkering with exchange-rate policies could likewise affect private investment adversely.

A satisfactory level of regional cooperation is needed, especially in economic areas. Central America is struggling with a redefinition of its overall regional integration model, particularly in the areas of political and social integration (e.g., regional supreme court, Central American Parliament, role of civil society and regional aspects of social development). Continued cooperation on economic topics, including trade, integration, investment, and finance is essential. As an indication of this support the Central American governments recently increased their budgetary contributions to the Central American Regional Economic Integration Secretariat (SIECA) by 25% to \$500,000 per member country per year. Thus far, the five Central American Common Market (CACM) countries (Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua) have adopted a regional approach toward negotiating free trade agreements with third countries and have initiated efforts to strengthen economic ties with Panama and Belize. It is imperative that regional disputes on non-economic issues, such as the current territorial disputes between Nicaragua and Honduras, between Nicaragua and Costa Rica, and between Guatemala and Belize, do not interrupt the region's cooperation in the economic sphere.

Approval by the U.S. Congress of Fast-Track Authority to negotiate free trade agreements and the ability by the hemisphere's countries to move forward the FTAA process will be desirable but are not essential conditions for USAID to be more effective in promoting its goals and objectives in Central America.

Also essential for long-run success in export-led, broad-based economic growth is significantly greater investment in human resources, especially at the primary-education level by El Salvador, Guatemala, Honduras, and Nicaragua.

F. Development Partners and Other USAID Activities

SO1 is specifically designed to provide support for implementing the sustainable development agenda defined and formally ratified by Central American leaders. Our partners are the seven Central American governments, Central American international NGOs, labor and other organizations, academic institutions, private sector groups, sub-

regional business, civil society institutions, regional organizations working on sustainable development, trade, investment, intellectual property, labor, energy, telecommunications and information infrastructure issues, USAID's bilateral Missions and U.S. Embassies in Central America, the LAC and Global Bureaus, other USG agencies, and donors.

Significant regional institutions are: the Central American Economic Integration Secretariat (SIECA), which is firmly committed to open regionalism and improved labor markets, the U.N. Economic Commission for Latin America and the Caribbean (CEPAL), the Organization of American States (OAS), the Central American Bank for Economic Integration (CABEI), and the Canadian International Development Agency (CIDA). Also among members of the donor community are the Inter-American Development Bank (IDB) and the World Bank.

The activities implemented under this strategy will be coordinated with LAC's Special Objective, "Continued Participation of LAC Sub-Regional Trading Blocs in Free Trade Area of the Americas Process Achieved." Also, G/EGAD's new initiative to foster broader participation by developing countries in an open, rules-based global trading system will be monitored, and the G/EGAD's technical resources will be tapped where feasible. The strategy's labor component will be coordinated with G/DG's programs supporting better labor management relations and stronger protection of core labor standards through its grant with the American Center for International Labor Solidarity. Close contact will be maintained with bilateral USAID and U.S. Embassy staff in Central America to maximize the strategy's contributions to bilateral USAID program objectives and to the Embassy country teams' Mission Program Plans (MPPs).

To the extent possible, USAID/G-CAP's funds will be used to leverage contributions from other donor agencies, multilateral lending institutions, the OAS, the Economic Commission for Latin America (ECLA), WTO and UNCTAD. In particular, USAID will support Central American efforts to obtain capacity building technical assistance and training resources through the recently established Integrated Framework Initiative under the auspices of the WTO. International trade experts on the staffs of the WTO, UNCTAD and the OAS will be encouraged to participate in USAID sponsored events. IPR experts funded by the World Intellectual Property Organization (WIPO), the U.S. Patent and Trademark Organization (USPTO) and the Mexican Institute of Intellectual Property (IMPI) will be incorporated into USAID's IPR activities. International Labor Organization (ILO) staff will be utilized to complement USAID-funded programs to strengthen the protection of core labor standards. In addition, funds from the U.S. Department of Labor will be supporting regional programs to improve labor-management relations (through the ILO) and enhance workplace health and safety standards through the Occupational Safety and Health Administration (OSHA). Private sector specialists in IPR and telecommunications from the U.S. will be identified to contribute their expertise to supplement USAID-funded activities.

G. Customer Focus

This SO responds not only to a permanent dialogue and feedback among the relevant partners and customers, but also to U.S. and Central American expressed priorities. These

priorities involve the pursuit of greater prosperity and reduction of poverty through open markets, increased private investment, accelerated hemispheric and sub-regional integration, and more just and efficient labor markets. The SO1 Customer Service Plan (CSP) reflects the region's own development strategy and the Summit of the Americas Action Plan adopted by all Western democracies in December 1994 and reaffirmed in 1998, with special emphasis on the establishment of the Free Trade Area of the Americas (FTAA) by 2005. The CSP responds to USAID/G-CAP's results-oriented goal of broad-based economic growth together with the acceptance by all countries of the region of an outward-looking, export-led strategy to achieve sustainable economic growth. The SO1 CSP has been developed to ensure that consultation and dialogue are systematically conducted with partners and customers, and that the results of this process are used to guide and enhance achievement of results.

SO1 conforms to the commitment of poverty reduction through a process of sustainable development built upon export-led, broad-based, economic growth. The services to be provided to customers and partners in the economic area include, through appropriate legislation and regulations, improved trade and investment policies, stronger protection of core labor standards, improvement in labor-management relations, increased productivity, and better functioning labor markets.

H. Sustainability

The strategy will support policy reforms leading to a more open Central American economy to global trade and investment flows. More open trade policies will continue generating new economic interest groups and constituencies supporting continued access to new markets and even further trade liberalization. In addition, those sectors will support related policies, such as a sound macroeconomic frameworks and modernization of the state, which aim at improving the overall competitiveness and economic efficiency of individual countries and the region. As the strength of such groups grows, this will help policy makers withstand protectionist pressures to reverse trade liberalization.

Many of the reforms supported by this strategy relate to compliance with provisions and commitments in existing and new multilateral and bilateral free trade agreements. History has shown that such agreements with outside trading partners are not as easily reversed as unilateral national trade and economic policies. Indeed, many governments have sought formal establishment of reciprocal free trade agreements to "lock in" trade policy reforms and minimize the potential for policy reversals by succeeding administrations (e.g., Mexico and NAFTA).

The strategy will also invest substantial resources in the training of trade technicians, negotiators and free trade agreement administrators in the ministries responsible for trade throughout the region. Sustainability of these trade capacity-building investments will depend on each ministry's ability to maintain qualified staff. This will require over the medium term continuation of national programs aimed at modernization of the public sector and civil service reform.

The new SO does not envision providing ordinary operating support to regional institutions or national ministries responsible for trade, labor and telecommunications/energy regulations. It is expected that regional governments will continue their current pattern of increasing funding for trade negotiation and administration activities at both the regional and national levels as the global, hemispheric and sub-regional economic integration agendas advance. It is anticipated that trade openness and market access will continue to be a top national and regional priority for Central America and the hemisphere.

I. Measuring Achievements: Indicators and Targets

1. Strategic Objective Level

SO1: Increased Central American Competitiveness in Global Markets

Indicators for measuring progress toward SO attainment are:

- (a) The region's overall average position on the World Competitiveness Index of the World Economic Forum (WEF). (Factors: trade openness, government fiscal performance, monetary performance, status of infrastructure, technology policy, status of labor markets, level of institutional development, e.g., in 1999, South Korea had 61.5 index value.). Baseline 1999: 34.5. Target 2006: 45.0.
- (b) A multidimensional composite indicator of readiness for participation in free trade agreements developed by the Institute for International Economics. (Factors: price stability, budget discipline, external debt, currency stability, private savings, market-oriented policies, reliance on trade taxes, and policy sustainability.) The region is scored on a scale of 0 to 5, with five being the most ready for participation in a free trade agreement, e.g., Chile in 1999 had a value of 4.4. Baseline 2000: 3.50. Target 2006: 4.00.

2. Intermediate Results Level

IR1.1. More Open Trade and Investment Policies

Proposed IR1.1 indicators are:

- (a) The region's average position on the trade component of the World Competitive Index. (Factors: non-tariff barriers, perception of exchange rate, priority to exports, credit and insurance availability for exports, direct foreign investment, average tariff).
- (b) The region's average position on the investment component of the World Competitive Index. (Factors: investment as a percentage of GDP, savings as a percentage of GDP, level of sophistication of financial markets).
- (c) Private investment in telecommunications and energy sector. Baseline 2000: \$4.0 Billion. Target 2006: \$7.3 Billion.

In addition, periodic assessments will be conducted on Central American compliance status with WTO and FTAA commitments.

IR1.2. Accelerated Central American Market Integration

Proposed IR1.2 indicators are:

- (a) Increased intra-regional trade. Defined as intra-regional merchandise trade as a percentage of GDP. Baseline 2000: 9.60. Target 2006: 11.0.
- (b) An intra-regional investment dispute mechanism established.
- (c) Intra-regional trade dispute mechanism established.
- (d) Intermediate steps toward the establishment of the El Salvador – Guatemala customs union taken.

Also, an assessment of Central American progress on adopting Basle Core Principles for Effective Banking Supervision will be conducted.

IR1.3. More Equitable and Efficient Labor Markets

Proposed IR1.3 indicators are:

- (a) The region's average position on the labor component of the World Competitive Index. (Factors: labor training, labor relations, workers' productivity, basic education in science and mathematics, flexibility to contract and fire, schooling). Baseline 1999: 23.5. Target 2006: 44.0.
- (b) International Labor Organization assessment of status of core labor standards protection by individual country.
- (c) A synthesis of U.S. embassy reports on the status of workers rights protection in each country (from the annual reports on the status of human rights).

Strategic Objective 2: Improved Environmental Management in the Mesoamerican Biological Corridor

A. Linkages to Agency Goals and Objectives

SO2 contributes to USAID Strategic Plan Goal 5 “The World’s Environment Protected for Long-term Sustainability” and USAID Objectives: 5.1 “Threat of Global Climate Change Reduced”; 5.2 “Biological Diversity Conserved”; 5.3 Sustainable Urbanization Including Pollution Management Promoted”; and 5.5 “Sustainable Management of Natural Resources Increased.” By promoting environmentally sound production practices and marketing of environmentally friendly products and services, SO2 will also contribute to USAID Strategic Plan Goal 1: “Broad-based Economic Growth and Agricultural Development Encouraged.”

B. Linkages to U.S. and Regional Central American Goals

1. U.S. Foreign Policy Goals

The USG places considerable importance on sound environmental management and conservation of tropical and sub-tropical ecosystems. The Foreign Assistance Act (Sections 117, 118 and 119) specifies that USAID shall undertake actions to conserve tropical forests and regionally and globally important biodiversity recognizing that sustainable development, human well being, and economic stability are closely intertwined with sound environmental management.

Sound environmental management in Central America is also of crucial importance to the expansion of free trade in the Americas, a stated U.S. policy goal. There is increasing concern about the impacts of free trade on the environment and the need for improved environmental management and standards in Central America.

2. Regional Central American Goals

This SO contributes to the Central American’s Alliance for Sustainable Development (ALIDES) and supports the continued implementation of some of the CONCAUSA joint commitments to promote the identification, conservation, and sustainable use of the incomparable biodiversity of the region; strengthening of the legal framework and compliance mechanisms, and improvement and harmonization of environmental protection standards; the clean and efficient use of energy; and actions supporting CA sustainable development. At the May 15, 2000 U.S.-C.A. review of CONCAUSA there was renewed commitment by the CA Environmental Ministers to the CONCAUSA agreement in these areas as well as global climate change and for the use of the Mesoamerican Biological Corridor as an overall unifying mechanism for guiding and focussing the regional environmental program.

Central America aims to increase its competitiveness and its participation in the global market. In the wake of the World Trade Organization (WTO) round in Seattle, Central Americans worry that demands for improved environmental production standards will

curtail access of Central American products to the U.S. and European markets. USAID/G-CAP will help Central America address these environment-related competitiveness concerns by demonstrating to selected Central American businesses and industries that they can adopt financially viable environmental management systems that meet high environmental standards.

C. Problem Analysis

Like most developing regions, Central America has its share of “green,” “blue,” and “brown” environmental problems. High deforestation rates, the widespread release of raw sewage, the inappropriate use of agrochemicals, the degradation of coastal-marine ecosystems, and the precipitous loss of biodiversity are some of the environmental trends that compromise Central America’s long-term development prospects. For example, it is estimated that between 1990 and 1995 the region lost over 450,000 hectares of forest cover per year, equivalent to a deforestation rate of 2.3%. According to the Central American Commission on Environment and Development (CCAD), 80% - arguably an underestimate - of all sewage in the region is discharged without any form of treatment leading to estimates that 60-80% of all illnesses are related to deficient water quality and sanitation. This environmental threat is growing due to unmet demands placed on water resources for irrigation. Furthermore, the already highest per capita rate of pesticide application in the world is increasing in tandem with a growing agricultural exports sector. These trends contribute to a further decline in water quality, loss of bio-diversity, and increased threats to human health.

Disturbing environmental trends are also apparent along Central America’s coastal areas such as loss of coral reefs and mangroves. While it is difficult to quantify the impacts of environmental deterioration on coastal areas, it is clear that several factors such as pollution from run-off water, sedimentation, extraction of ground water, deforestation, uncontrolled access, and resource-use conflicts threaten the ecological integrity of coastal ecosystems.

The social and economic consequences of these trends are significant. For example, environmental degradation threatens the sustainability of the tourism industry which contributed nearly \$2.2 billion to the regional economy in 1998. The inadequate application of pesticides, especially chloro-organic pesticides, poses a hurdle to agricultural exports. The 1997 U.S. ban of Guatemala raspberries cost producers an estimated \$10 million. The demise of Central America’s fishing industry would cost the region at least \$750,000 annually and 200,000 jobs.

Central America despite accounting for 0.5% of the world’s territory has 7% of the biodiversity. While the Mesoamerican Biological Corridor serves as an important regional unifying concept for protected areas management and maintaining biodiversity, the stark reality is quite different. Just over half of the 704 protected areas have been legally declared and only a handful of protected areas (primarily national parks) have effective management plans in place or financial resources to maintain them. Forest and

coastal mangrove areas, though a potential resource for Global Climate Change purposes, continue to be destroyed.

The causes for this deteriorating environmental situation are many. USAID is already addressing some, such as rapid population growth, through bilateral USAID programs. Others, such as the lack of harmonized environmental standards, the externalization of environmental costs, the reduced incentives for sound environmental practices, and the limited existence and sharing of viable environmental management models are appropriately addressed from a regional USAID perspective particularly in the case of shared coastal and terrestrial resources.

Opportunities and Remaining Challenges

Central America's environmental problems have not escaped notice. Working under the ALIDES framework, USAID and partner organizations have made progress in creating the foundation for improved environmental management in the region. USAID's assistance helped enlarge the region's protected area system, created models for local-level environmental management, enhanced protected area management capacity, and strengthened the legal environmental framework. Much remains to be done however to consolidate the foundation for improving environmental management. The results achieved thus far by USAID and partners clearly improved some environmental management practices. Current regional and global trends and developments create opportunities for still more improvements in environmental management not as evident five years ago.

For example, the institutional framework that addresses regional environmental issues has been strengthened. CCAD has assumed a catalytic role in bringing environmental issues to the forefront of Central America's regional integration agenda. CCAD coordinated the development of the Regional Environmental Action Plan for Central America (PARCA), and the Central American Action Plan for Integrated Hydrologic Resources Management (PACADIRH). CCAD's and USAID's efforts in the past five-years led to the enactment of national environmental legislation in five Central American nations. However, the national capacity and resources to implement environmental policy is severely limited. Enforcement of environmental regulations is weak and management of protected areas, with the possible exception of Costa Rica and some "showcase" sites, is limited. Monitoring compliance with international environment agreements is similarly weak.

The assimilation of CCAD's Secretariat by SICA's Environmental Directorate creates further opportunity for collaboration on environmental management. This institutional reorganization fosters closer integration of CCAD's agenda, largely defined by the region's environmental ministries, with those of other SICA entities such as that of the Regional Committee for Hydrologic Resources (CRRH). Cross-sectoral integration is a requirement for improved environmental management because of the number and range of institutions that need to be involved. Natural resource policy and management issues usually involve - at both the regional and national levels - entities other than those

directly related with the environment. In addition, the disproportionate impact of recent extreme events, largely attributed to environmental mismanagement, catapulted environmental issues to the forefront of Central America's integration agenda. The cross border effects of Hurricane Mitch in shared watersheds highlighted the importance of addressing certain environmental management issues from a regional perspective.

Several worldwide trends create opportunities to increase returns to conservation and sound environmental management. There is an unprecedented growth in the specialized tourism market such as cultural, nature, adventure, and ornithological-based tourism. In 1994, 7% of all international travel expenditures, an estimated \$238 billion, were generated from specialized tourism. A study undertaken by the Latin American Center for Competitiveness and the Harvard Institute for International Development (INCAE/HIID) identifies specialized tourism as the industry with the greatest growth potential in Central America. The region's competitive advantage in this sector lies in its natural resources, cultural heritage, and proximity to the world's largest tourism market.

Consumers, particularly in developed countries, are placing increasing value on environmentally friendly products and services. For Central American farmers and businesses according to the C.A. 2020 report, this represents both a challenge and an opportunity. A challenge because industries, particularly agribusinesses, must improve their environmental performance or risk exclusion from more environmentally demanding international markets. An opportunity because producers that meet higher environmental standards will have greater market access and may obtain higher prices for their products.

Another trend identified in the Central America 2020 report is the possible potential of investments in carbon sequestration by maintaining forests and mangroves and thereby reducing green house gas emissions. If Global Climate Change mechanisms are approved, the value of forests and mangroves as carbon sinks may increase, promoting additional market incentives for their sound environmental management.

USAID/G-CAP's strategy builds on the accomplishments of its current regional environmental program (1997-2001) to improve regional environmental management. Whereas most ongoing themes are included in this strategy, a change in approach and focus reflects the progress and lessons learned over the past five years, current trends, and new opportunities and challenges.

The strategy incorporates adjustments with respect to the current environmental program that also respond to recommendations made in the 1999 evaluation of the program and by USAID/Washington and bilateral USAID missions. The strategy elements are also consistent with and guided by the recent May 15 review of CONCAUSA. First, USAID/G-CAP will enhance the ecological impact and demonstration value of its field-level activities by situating them within strategically selected representative ecosystems that form part of the Mesoamerica Biological Corridor. Experiences derived from work in these areas will be disseminated to analogous ecosystems in the region. Second, there will be a greater focus on the application of environmental regulations, in contrast with

the development of policies and laws. Third, the promotion of tangible near-term market-based and other incentives to foster adoption and ensure sustainability of improved environmental management interventions will be increased. Fourth, USAID/G-CAP will broaden the set of regional organizations with which it works. Fifth, successful NGO alliances and coalitions will be expanded to include the private sector. Finally, the achievement of improved environmental management in the region will directly address Global Climate Change which will serve as a cross cutting theme through improved forest and coastal management, enforced compliance with environmental regulations, improved solid waste and waste water management, and cleaner production methods.

D. Results Framework

USAID/G-CAP will foster the adoption of improved environmental management practices in the region using selected regional sites of the Mesoamerican Biological Corridor to focus environmental activities. USAID/G-CAP will focus on three conditions that hamper improved sustainable environmental management in Central America. First, experience demonstrates that long-term environmental benefits to the society at large are insufficient to induce behavioral changes of individuals, the private sector, and governments. This problem, as explained in the Central America 2020 report, arises because private returns of environmentally sound practices with high social value are low compared to private returns for harmful practices with low social value. Faced with a choice between immediate household needs, short-term national priorities or economic gains **and** longer-term, less visible environmental benefits, individuals, governments and the private sector tend to sacrifice the latter. Environmentally sound and economically viable eco-products and services need to be promoted and expanded.

Second, the environmental costs to society of productive activities often are not internalized by the producers due to fiscal, legal, regulatory and enforcement deficiencies. The cost of pollution is rarely passed along to the direct consumer. Rather, society as a whole “pays” in the form of a degraded natural resource base, diminished health, etc. Without effective regulation and enforcement, polluters find it more convenient to pollute than take the necessary steps to minimize adverse environmental impacts. Enforcement problems are augmented because standards, regulations and enforcement procedures are often developed with inadequate private sector and civil society participation. Faced with unrealistic environmental performance standards and no enforcement, producers very often choose to ignore them. In the case of shared resources (e.g., watersheds and coastal areas) the problem is compounded by the lack of resource management agreements based on harmonized environmental standards and regulations. This encourages cross-border externalization of environmental costs.

Third, there is a limited number of sustainable environmental management models to steer the application of sound environmental practices in the region, particularly in shared ecosystems. Where they exist, these models have been inadequately disseminated throughout the region.

The strategic objective will be achieved by: (1) promoting the sustainable management of protected areas in key sites that are part of the Mesoamerican Biological Corridor, (2) promoting regionally environmentally sound products and services, (3) enhancing compliance with harmonized environmental standards and regulations, and (4) fostering the increased use of less-polluting technologies.

The Mesoamerican Biological Corridor is defined by the CCAD as a system of ordering territory composed of protected natural areas under special administration, buffer zones and interconnection areas which together provide environmental goods and services to the people of Central America and the world. Eleven regional protected areas are part of the MBC under the CA Agreement on Biodiversity and Protected Areas. The MBC will serve to focus our environmental activities under the IRs. USAID/G-CAP will consult with SICA's Environmental Directorate and USAID missions to insure there are greater synergies and focus among the activities. The Environmental Directorate will also engage national government entities to insure that regional sites receive their administrative and financial support. While not all IR activities will necessarily be "site" focused, when on-the-ground activities are proposed the MBC regional site concept will reinforce synergy, provide feedback on national and regional environmental policy changes that may be required and also improve the dissemination of appropriate resource management models in the region.

Strategic Objective 2
**Improved Environmental Management
in the Mesoamerican Biological Corridor**

Intermediate Result 1
Improved Protected
Area Management

- Regional protected area system strengthened
- Improved protected area management methods applied (e.g., co-management)
- Successful environmental management financing models tested and disseminated (e.g., endowments, fees, trust funds)

Intermediate Result 2
Expanded
Environmentally Sound
Products and Services

- Regional certification and marketing of certified eco-products (e.g., timber, coffee)
- Regional eco-tourism services promoted
- Strengthened regional partnerships and coordination on common approaches

Intermediate Result 3
Harmonized
Environmental
Regulations

- Harmonized environmental standards and regulations developed
- Greater capacity to apply environmental regulations
- Application of international agreements (e.g., CITES, RAMSAR)

Intermediate Result 4
Increased Use of
Less Polluting
Technologies

- Cleaner production technologies applied and disseminated
- Improved municipal solid waste and wastewater management approaches disseminated
- Strengthened regional partnerships and coordination

Intermediate Result 2.1: Improved Protected Area Management

While USAID/G-CAP has been successful in disseminating improved protected area management practices, much remains to be done to consolidate Central America's protected areas into a functioning regional protected area system which is part of the MBC. Therefore, USAID/G-CAP will continue to promote standardized improved protected area management tools and approaches. The mission will focus its efforts on site planning, monitoring, innovative management models, revenue generation, financial planning, and marketing. It will also facilitate the development of strategic alliances between governments, NGOs, communities, producer groups and the private sector. USAID/G-CAP also sees an opportunity to support efforts for greater regional coordination on preventing and fighting forest fires as well as on transnational watershed management. The MBC and particularly selected, shared border sites can provide a useful vehicle for greater coordination on these problems.

USAID/G-CAP will disseminate successful protected areas management interventions developed under its regional program, it will collaborate with USAID bilateral missions (including Mexico), USAID/W and other partners to disseminate regionally applicable models and practices developed under their programs. For example, the regional program could work with USAID/Nicaragua to disseminate that mission's experience with co-management of protected areas, and with USAID/Guatemala to adapt and disseminate its approach to community forest concessions and certification.

To the extent practicable, USAID/G-CAP will focus activities under this IR, within protected areas in the MBC regional sites which transcend national borders or are situated in shared ecosystems and the Mesoamerican Reef Initiative (selected coastal areas form part of the MBC).

The strength of a regional approach in improving protected area management in Central America derives from the ability to take advantage of: (1) the diversity of environmental management approaches and experiences in the region; and (2) ecosystems similarities that provides the ecological "thread" that enables successful models and practices to be disseminated. For example, Costa Rica, a country at the forefront of environmental management has no experience with NGO-public sector co-management arrangements for protected areas. On the other hand, Belize and Nicaragua, countries with incipient environmental agenda, have considerable experience with this approach to protected areas management.

This IR will pursue the following lower level results:

Regional Protected Area System Strengthened – USAID/G-CAP will work with regional institutions such as SICA to promote common approaches throughout the region, share successful models, foster dialogue, and promote regional protected area policy instruments and norms. Where important protected area components of the Mesoamerican Biological Corridor and the Mesoamerican Reef System extend across national borders, USAID/G-CAP will work with regional institutions to facilitate the elaboration of agreements among countries for collaborative management of these areas.

Initially, field-level activities will be centered on ecosystems where USAID/G-CAP now focuses its transnational activities. The plan is to take sites such as the Gulf of Honduras (Honduras, Belize, Guatemala), the Gulf of Fonseca (El Salvador, Nicaragua, Honduras) and Gandoca-Bocas del Toro (Costa Rica, Panama) and treat them as part of the larger ecosystems of which they are part. USAID/G-CAP will also support SICA efforts to lead regional coordination on forest fires and transnational watershed management. These are key elements of SICA's plans to reduce vulnerability to disasters.

Improved Protected Area Management Methods Applied (e.g., co-management) – Governments in the region are unable to provide adequate protection, resources, or expertise for sustainable protected area management. Thus, USAID/G-CAP will facilitate the creation of partnerships and application of innovative models for protected area management such as effective co-management agreements, broad-based management coalitions, and private protected area establishment. Furthermore, to strengthen park management capacity, mission will continue to promote the use of improved protected area management tools and techniques such as site conservation planning, administrative monitoring, and financial planning. USAID/G-CAP will work with USAID/missions and other development partners to disseminate the use of tools developed with their assistance.

Successful Environmental Management Financing Models Tested and Disseminated (e.g., endowments, fees, trust funds) – Protected areas need to broaden their financial resource base. USAID/G-CAP will work with protected area management entities to test and disseminate the use of viable income sources such as environmental services provision (e.g. water production, carbon sequestration), profitable use of research facilities, concessions, fees, and sustainable resource use. Where appropriate, USAID/G-CAP will facilitate partnerships between private sector and protected area management entities, and the use of financial plans to secure sustainable financing for protected area management. Furthermore, the mission in collaboration with NGOs and government partners will identify and promote successful conservation financing mechanisms in use in the region and Mexico. Some financing mechanisms to be explored will include biodiversity prospecting agreements, and endowment and trust funds. USAID/G-CAP will also investigate the practicality of using both governmental, and non-governmental endowment funds as viable mechanisms for conservation financing in the region.

Intermediate Result 2.2: Expanded Environmentally Sound Products and Services

Without an expansion of market-based and environmentally-friendly products and services, positive changes in environmental management behavior will remain elusive. USAID/G-CAP supported several pilot activities in this area: increasing access to certified coffee markets, promoting sustainable tourism, and strengthening the basis for forest certification. These pilot efforts sought to take advantage of the potential higher returns for environmentally-friendly products and services. There were several lessons from these activities: a strong interest on the part of producers, but a general lack of knowledge about how to access those markets; and a confusing array of eco-certification mechanisms.

Under this IR, USAID/G-CAP will expand support to promote access to markets and information for environmentally friendly products and services in the region. Activities will be implemented to insure active participation by women. For example, information on markets and on regionally and internationally recognized environmental labeling and certification schemes will be made available.

There are important advantages of a regional market-based approach in promoting eco-products and services. As investors and consumers increasingly begin to view Central America as an economic region instead of individual countries, there are advantages of scale over country-level actions. Central America as a whole may be marketed as a diverse alternative tourism destination and as a region offering a wide spectrum of certified environmentally friendly products. Second, the international credibility of environmental certification schemes is related to the geographical scope of its application. For example, a certification scheme for ecotourism applicable only in one country will have less market appeal than an internationally recognized certificate used throughout the region. Third, certification practices applied across countries will reduce the possibility that the investments in sound production will be undermined by another country. For example, certified sustainable forest management entails investments in land management and certification processes. A country that continued to permit uncontrolled, illegal, timber extraction would undermine efforts in the region to promote sustainable methods.

To achieve this IR, the following lower level results will be pursued:

Regional Certification and Marketing of Certified Eco-Products (e.g., timber, coffee) – USAID/G-CAP will work with regional producer associations to access existing environmental labeling and certification schemes and markets for certified products. Initially, USAID/G-CAP will focus its work on certified coffee and timber, two products with which it has acquired considerable experience during the past five years. As the program develops, USAID/G-CAP may include other products such as cacao, organic cashews, and non-timber forest products.

USAID/G-CAP will work with regional coffee producer associations to increase their knowledge about certification mechanisms and facilitate their certification and market access. To increase market access of certified coffee, USAID/G-CAP will support the creation of a regional certified coffee data base and web site to increase access to information on certified Central American coffee. This comprehensive database will be established in collaboration with a regional producer institution or network. USAID/G-CAP will collaborate with this regional partner to help it develop a financial plan and assume the management of the database and web site before the completion of the strategy period. To elevate the capacity of producers to participate effectively in business transactions, USAID/G-CAP will support the regional association in providing training to interested national producer groups on topics such as important aspects of the certified coffee market, and managing and maintaining certification.

USAID/G-CAP will work with regional forestry and forest products associations to facilitate their certification and market access as well. USAID/G-CAP will build on the results of past analyses and studies which identified certifiable forest management units in Central America and options for timber certification. Key activities will include: increased information about the procedures, options and potential benefits of certification; the sharing and dissemination of successful examples (in Guatemala and Costa Rica) of forest certification; the creation of a regional certified timber database and web site; and the creation of alliances among community-managed forest concessions, timber companies, and certifying entities. During the strategy period, a financial management plan for the database and web site will be implemented and management of the site transferred to an appropriate regional entity.

To increase synergy and provide on-the-ground field-site examples of environmentally friendly products and services, USAID/G-CAP will closely coordinate with bilateral USAID missions and disseminate the lessons learned through regional associations, SICA and other mechanisms using exchange visits, workshops, manuals and the media. For example, the program may work with targeted coffee-producer groups to increase their organizational and managerial capacity, help them certify their operations and increase their direct access to market. In close consultation with USAID missions, more direct technical assistance may be provided to producer groups in selected geographic areas to certify forest management units, enhance managerial capacities, and promote vertical market integration for certified timber products through actions to increase the capacity of the producer groups to interact with timber importers and exporters. These experiences will similarly be disseminated in the region.

Regional Eco-Tourism Services Promoted – USAID/G-CAP will continue to work with its regional partners to foster the adoption and marketing of environmentally and culturally responsible tourism. To increase the adoption of improved tourism practices, USAID/G-CAP will help consolidate a number of local and national-level tourism certification initiatives into regional systems that are recognized internationally, and demonstrate the viability and benefits of certification. USAID/G-CAP will increase the market appeal of alternative tourism products by elevating the capacity of the ecotourism sector to provide quality products, and, in association with tourism industry associations (e.g. Federación de Cámaras de Turismo de Centro America – FEDECATUR) and governments, promote the region as a diverse ecotourism destination. A database on regional ecotourism products will be developed and incorporated into a web site for ecotourism products in Central America. This web site will be developed in conjunction with a regional organization and its management turned over prior to the completion of the strategy period. USAID/G-CAP will support the development of a financing strategy for the maintenance of the data base and web site.

The ecotourism potential of representative ecosystems will be identified and selected tourism products developed and marketed. This will entail working with communities, tourism companies, and national governments. Ecotourism routes, including diverse transnational tourist attractions will be developed and marketed, and training will be provided to industry and communities on how to access the ecotourism market and how

to manage and accommodate ecotourism. In close consultation with bilateral USAID missions, ecotourism certification assistance may be provided to groups in areas where the regional program has transnational environmental activities. The “best practices” ecotourism guide developed during the current program will be improved and used as a tool to improve the quality of ecotourism products now offered. Successful experiences will be disseminated throughout the region through exchange visits, workshops, training, technical assistance, best practice manuals and the media.

Strengthened Regional Partnership and Coordination on Common Approaches – Coordination with key regional institutions such as SICA and national environmental and other entities will be supported to identify policy legal or other obstacles to expanded certification and promotion of eco-products. Partnership among the private sector or public sector, NGOs and communities will be encouraged to assist in the expansion of eco-products, disseminate experiences and guide activities in Meseoamerica Biological Corridor sites where appropriate.

Intermediate Result 2.3: Harmonized Environmental Regulations

While Central America’s environmental policy and legal framework is considerably improved over what it was just five years ago, its effective application is compromised by the inadequacy or lack of harmonized environmental standards and regulations, and feeble enforcement capacity. Of singular urgency are the cases of water quality standards, norms and regulations, and the management of shared watersheds. None of the Central American countries has comprehensive water legislation. Norms and regulations are narrowly focused and dispersed, and coordination among the numerous institutions that deal with the resource in each country is minimal. In spite of the fact that Central America contains 15 shared watersheds, there is no existing shared watershed management agreement in the region.

Several countries have already started the process of drafting regulations for air quality, water quality, wastewater treatment standards, pesticides management, industrial effluents, and tolerance levels under laws passed during the past five years. To be effective in the regional context, those regulations, norms and standards need to be based on common principles and criteria, but adapted to the specific conditions in each country. Without a set of common standards, countries will not be able to agree on common environmental management goals or have an objective base upon which to negotiate environmental management agreements or settle environmental differences. To be locally accepted they need to be developed in a participatory manner with effective private and public sector participation. Widely accepted international private sector initiatives for self-regulation, such as the International Standards Organization’s (ISO) 14000 series, may also serve as an acceptable alternative to government-led normative frameworks.

The improved application of the Convention on International Trade of Endangered Species (CITES), International Wetlands Convention (RAMSAR), the United Nations Framework Convention on Climate Change (UNFCCC) and other international agreements would yield improved environmental management and conservation. To be

effective, compliance with these agreements needs to be consistent throughout the region, lest one country's laxness compromise the efforts of its neighbors. A first step is increasing the understanding of the economic, enforcement, and monitoring implications of these agreements by key personnel (e.g., CITES and UNFCCC authorities).

The harmonization of standards and regulations requires a regional approach. Compatible environmental standards and regulations are needed to strengthen regional economic integration and are likely to be increasingly important for regional participation in trade agreements. Compliance, however, takes place at the local and national levels. Nonetheless, the effectiveness of national and local level compliance is strongly influenced by regional level initiatives and commitment. For example, the control of trade in endangered species under CITES calls for close monitoring of border posts, lest a country that strictly adheres to the requirements of the convention sees its efforts undermined by a neighboring laggard. This border control cannot take place without close regional collaboration. Regional compliance is also necessary to ensure that environmental "free riders" are not allowed to externalize production costs, thus reducing the price of the final product and acquiring an unfair, albeit short-lived, competitive advantage.

To achieve this IR, USAID/G-CAP will focus on the following lower level results:

Harmonized Environmental Standards and Regulations Developed – USAID/G-CAP will work with SICA's Environmental Directorate and operational units such as the CRRH to facilitate the development of regionally accepted environmental regulations. It is expected that this occur through a consultative process and the provision of high-quality technical assistance, entailing workshops with industry associations, government institutions, NGOs and academic institutions to discuss the scope, content, flexibility and applicability of these regulations.

Greater Capacity to Apply Environmental Regulations – USAID/G-CAP will support the training of public sector authorities and industry groups in compliance procedures and improved enforcement techniques. This training will be provided at different levels of the compliance and enforcement chain, including training of municipal authorities, customs authorities, judges, and magistrates. Training events provided from a regional platform will take advantage of, and foster the creation of regional networks. USAID/G-CAP will also help develop an enhanced self-regulatory capacity by selected industry associations to participate in self-regulatory initiatives and examine the viability of using ISO14000 mechanisms. This will be accomplished by increasing the knowledge of self-regulatory initiatives in the U.S. and other countries, illustrating the benefits of participation, and demonstrating the technical and economic feasibility of improved environmental performance. It is expected that technical assistance from US-EPA would be tapped to support the harmonization and application of environmental regulations.

Application of International Agreements (e.g., CITES, RAMSAR) – USAID/G-CAP will work through SICA's Environmental Directorate to increase the effectiveness of Central American participation in international agreements. This will include training for CITES

implementation authorities and enforcement personnel, the provision of opportunities for countries in the region to develop regional positions, the development of implementation regulations and norms where these are lacking, and support for analytical studies to monitor the economic, social and ecological impact of international treaty implementation. Activities under this lower level result, will be closely coordinated with bilateral USAID missions and the State Department Environmental Hub in San Jose, Costa Rica.

Intermediate Result 2.4: Increased Use of Less Polluting Technologies

Some of the most serious environmental problems in Central America arise from the use of environmentally harmful production and waste management technologies and methods. Municipalities face considerable challenges in dealing with solid waste and wastewater. The short and long-term threats to ecosystems and human health are very serious and widespread. Outdated emissions treatment and technologies contribute to climate change and local air-pollution problems. The uncontrolled discharge of industrial effluents and raw sewage into lakes, rivers, and streams promotes the growth of invasive species (e.g. water hyacinth), leads to a decrease in dissolved oxygen, causes degradation of fisheries resources, increases the incidence of water borne diseases (e.g. diarrhea, parasitic infections), and increases the potential for poisoning by heavy metals and carcinogens. The inappropriate application of pesticides, many of them persistent organic pollutants (POPs) is undoubtedly a primary threat to the region's environment. Central America, has one of the highest per capita application of pesticides in the world. This fact has long lasting grave implications to biodiversity, human health and sustainable development because agrochemicals poison surface and subsurface water resources.

The following lower-level IRs will be pursued:

Cleaner Production Technologies Applied and Disseminated – USAID/G-CAP will, in close coordination with bilateral USAID missions, work with entities from key regional industry clusters (agri-business and tourism) in representative ecosystems along the Mesoamerican Biological Corridor to improve environmental management practices and reduce negative environmental impact of human activities. This will entail the provision of technical assistance, demonstration of the benefits that would accrue from the application of environmentally sound production processes, and increasing the understanding of requirements for ISO14000 certification. Exchange visits, workshops and conferences will serve to disseminate the lessons learned from environmental management and environmental auditing. USAID/G-CAP will tap USAID Global Bureau's expertise where appropriate.

Improved Municipal Solid Waste and Wastewater Management Approaches Disseminated – Inappropriate solid waste and wastewater management is a pervasive environmental problem in Central America; less than 5% of all sewage receives any form of treatment before discharge and less than 50% of solid waste is collected, the rest often being disposed of in rivers, lagoons, coastal areas, bays and beaches. This is a principal

regional threat to biodiversity and human health. During its current strategy period, USAID/G-CAP developed a highly successful model for community-level wastewater and solid waste management. The mission will disseminate this approach to target communities in the region and will look at innovative ways to finance municipal efforts to improve solid waste and wastewater management. USAID/G-CAP will tap RUDO/LAC expertise in municipal finance as well as their existing municipal networks such as FEMICA to disseminate the lessons learned from these approaches.

Improved solid waste and wastewater management practices often release methane. This green house gas (GHG) may be captured and used to generate electricity. This proven technology has not been applied in Central America. USAID/G-CAP will facilitate its application in representative sites in Central America. Its adoption would yield two climate change related benefits: prevention of methane emissions from the site and the generation of “clean energy” that would otherwise have to be provided by fossil fuel powered thermal plants. Electricity sales would help defray the costs of implementing improved wastewater and solid waste management. USAID/G-CAP will, make a concerted effort to target solid waste and wastewater management problems in small to medium-sized cities that have a negative impact on shared ecosystems within the Mesoamerican Biological Corridor and the Mesoamerican Reef System.

Strengthened Regional Partnerships and Coordination – USAID/G-CAP will help strengthen partnerships among regional institutions, national governments, local governments and private sector institutions to broadly disseminate cleaner production approaches, foster regional agreements on cleaner production standards, and promote policies that create incentives for more efficient and less polluting technologies and practices.

E. Critical Assumptions

The successful implementation of this environmental strategy assumes continued regional support for improved environmental management and conservation. In light of the widespread recognition that environmental mismanagement increases the economic and ecological vulnerability of the region, there is a strong likelihood that this assumption will hold. It is also important that SICA continue to be an effective coordinator for such regional cooperation and that in MBC regional sites national governments be willing to prioritize resources and personnel to achieve expected synergies in sound natural resource management. It is expected that current border disputes will not lead to the cessation of technical cooperation between governments or other institutions. At the global level it is assumed that consumer and industry-led initiatives to improve the environmental performance of economic activity will continue.

F. Development Partners and Other USAID Activities

SO2 supports Central America’s environmental agenda outlined in ALIDES. The implementation of this agenda is promoted by the Secretariat for Central American Integration (SICA). This regional umbrella institution incorporates sectoral institutions

such as the Central American Commission for Environment and Development (CCAD), and the Regional Committee on Hydrologic Resources (CRRH). Accordingly, SICA will be a principal USAID/G-CAP regional partner in achieving this objective.

National level actions are necessary to achieve regional results. Therefore, USAID/G-CAP will collaborate with USAID bilateral missions and SICA to forge effective partnerships with government institutions to address issues at the national level that have regional implications. USAID/G-CAP will continue to insure that these regional activities complement those undertaken by USAID bilateral missions. National and regional level activities will be complemented by local level actions. This mandates that USAID/G-CAP work in partnership with local-level governments and community groups in the implementation of site-based activities. At operational levels, USAID-funded technical assistance and grants will engage a far-reaching network of professionals, academic institutions, regional and local NGOs, national protected area authorities, community organizations, local governments, and producers groups.

In addition to partnerships with USAID bilaterals in Central America, USAID/G-CAP will collaborate closely with USAID/Mexico in matters related to conservation in the Mesoamerican Biological Corridor and the Mesoamerican Reef System. This collaboration will involve among others capacity building, sharing and dissemination of successful models, and cross border coordination.

Collaboration with the private sector is also crucial to the achievement of all three SO2 IRs. USAID/G-CAP will develop strategic relationships with chambers of industry and commerce and other business and industry associations.

There are several USAID/LAC initiatives of relevance to SO2. The United States, Latin America and Caribbean Environmental Partnership Program (US-LACEP) is particularly important as its aims are compatible with the environmental strategy described herein. USAID/G-CAP will work closely with the team responsible for the management of the US-LACEP activity. USAID/G-CAP will also work in close partnership with USAID/G's Environment Center, the U.S. State Department's Environmental Hub in San Jose, Costa Rica and U.S. EPA, particularly in matters related to climate change, water resources and bio-diversity.

The UNDP and World Bank through the Global Environmental Facility will be close partners, particularly in matters related to the Mesoamerica Biological Corridor. USAID/G-CAP will join forces with the Inter-American Development Bank (IDB), the Danish Development Agency (DANIDA), the United Nations Environmental Program (UNEP), the German Development Agency (GTZ), and the European Union (EU), all major contributors to Central America's Environmental agenda. USAID/G-CAP will contemplate partnerships with financial institutions if it opts to utilize the DCA as a financing mechanism. The role of private financial institutions will become clearer as USAID/G-CAP designs the activities for implementation of this strategy.

Current regional donor initiatives complementary to this strategy include:

- The IDB's \$10 million program to support regionalization of port contingency activities (oil spills, transport of toxic materials) based on the experience supported by USAID's current coastal management activities in Puerto Barrios, Guatemala.
- The Global Environmental Facility (GEF) support to the Central American Sustainable Development Fund (FOCADES) for Climate Change, International Waterways and Manatee Protection.
- The GEF-funded Corridor program.
- The GTZ German International Technical Assistance Agency (GTZ)/World Wildlife Fund (WWF) Corridor program in environmental education.
- The EU's Sustainable Development in Agricultural Frontiers (Frontera Agrícola) program.
- The Danish Agency for International Development (DANIDA)'s Gulf of Fonseca coastal resource management program.

G. Customer Focus

Customer participation was an integral part of strategy development. This was accomplished by involving USAID bilateral missions in the development of the results framework, e-mail questionnaires sent to key individuals and institutions in the region, and a day-long strategy review retreat with key regional partners. Furthermore, the strategy is based on key analysis and caters to strategies developed by USAID/G-CAP's customers.

Primary USAID/G-CAP customers for the purposes of this strategy are regional institutions (SICA, CRRH, CCAD), national level government institutions, ecotourism operators, producers groups, key industries and enterprises, USAID bilateral missions and USAID/W. Two principal mechanisms will be utilized to secure customer feedback. First, each implementing entity will be required to prepare and implement a customer satisfaction report. These reports will be simple and effective and shall consist of two fundamental elements: a description of the methodology used to secure customer feedback and a proposal to address customer concerns. The format for these customer satisfaction reports will be approved by USAID/G-CAP prior to its implementation. Second, USAID/G-CAP will organize annual meetings with customers and partners to review the progress of strategy implementation and secure customer feedback. Finally, continuous communication with USAID missions and regional institutions shall be an integral part of strategy implementation.

H. Sustainability

USAID/G-CAP will approach the crucial issue of sustainability from different perspectives. First, the mission will work with and continue to strengthen selected SICA member institutions. The strengthened institutional framework will ensure the commitment and availability of resources for regional conservation initiatives into the future. Second, an underlying tenet of this environmental strategy is that sound

environmental management will take place if it makes social and economic sense. Accordingly, USAID/G-CAP will focus on socially and economically viable activities, such as organic coffee cultivation, cleaner production, and ecotourism, that are environmentally benign. Third, because the linkages between environmental and human well being are at times blurred, USAID/G-CAP will incorporate into its program activities that illustrate the social and economic importance of maintaining ecosystem health. Once these linkages are clarified the interests of individuals and institutions in improved environmental management will be heightened. Fourth, past experiences in Africa and Latin America have demonstrated the limitations of approaches to environmental management that rely entirely on local communities. Often grass roots organizations lack the managerial and administrative skills necessary to be effective on their own. USAID/G-CAP will address this challenge to sustainability of its site-based activities by fostering partnerships between the private sector, municipalities, and community-based organizations. To the extent possible, producer associations, local level NGOs and local governments will be capacitated. Fifth, USAID/G-CAP will aim to establish innovative sustainable financing mechanisms such as payment for environmental services (e.g. water production; carbon sequestration) and income generating activities (e.g. ecotourism in protected areas, correct water pricing).

I. Measuring Achievements: Indicators and Targets

1. Strategic Objective Level

SO 2: Improved Environmental Management in the Mesoamerican Biological Corridor

Proposed SO2 Indicator: Number of MBC regional sites with improved environmental management systems in place. Baseline 2000:3. Target 2006: 6.

Indicator description: Improved environmental management systems in place would be determined by:

- Site have site conservation plans, monitoring system, financial plans
- Regional, national, local community management agreements in place
- Pollution norms and standards applied to site

2. Intermediate Results Level

IR2.1: Improved Protected Area Management

Proposed IR2.1 Indicators:

- (1) Hectares of protected area under improved management
Baseline 2000: 1,000,000 hectares. Target 2006: 4,000,000 hectares.

Indicator description: Site management index will be used to determine improved management.

- (2) Number of management techniques and models adopted nationally: e.g.
 - Co-management agreements legalized
 - Monitoring systems adopted
 - Site conservation planning
 - Financing mechanisms legally approved

IR2.2: Expanded Environmentally Sound Products and Services

Proposed IR2.2 Indicators:

- (1) Regional certification mechanisms established in coffee, forestry and tourism
- (2) Production area under certification mechanism
- (3) Number of tourism operators participating in eco-tourism certification programs

Indicator Description: Focussed surveys would also be carried out to establish impact on income of certified producers and service providers.

IR2.3: Harmonized Environmental Regulations

Proposed IR2.3 Indicators:

- (1) Number of countries adopting harmonized environmental standards for:
 - Water quality
 - Environmental impact assessments
 - Pesticides
 - Effluent discharge
- (2) Number of participatory mechanisms established for developing environmental standards

IR2.4: Increased Use of Less Polluting Technologies

Proposed IR2.4 Indicators:

- (1) Number of industry clusters that adopt common environmental management system standards
- (2) Number of firms adopting improved technologies
- (3) Number of municipalities utilizing improved solid waste and wastewater treatment practices
- (4) Regional municipal associations adopting solid waste and wastewater treatment practices and technologies

Strategic Objective 3: An Enhanced Central American Capacity to Respond to the HIV/AIDS Crisis

A. Linkages to Agency Goals and Objectives

SO3 contributes to USAID Strategic Plan Goal 4: “World Population Stabilized and Human Health Protected” and USAID Objective 4.4, “HIV Transmission and the Impact of the HIV/AIDS Pandemic in Developing Countries Reduced”.

B. Linkages to U.S. and Regional Central American Goals

1. U.S. Foreign Policy Goals

HIV/AIDS continues to be a high level U.S. policy concern in the region because of legal and illegal migration patterns and the increasing two-way tourism between the region and the U.S. The release of U.S. Department of State’s (DOS) 1999 Report on the International Response to HIV/AIDS was accompanied by the Secretary of State’s directive to engage senior level policymakers in Latin America on the status of the disease and importance of moving concern and actions beyond the health sector. The Secretary’s cable of March 28 of this year (STATE 58033) reaffirmed the USG concern that emerging infectious diseases, and especially HIV/AIDS, has additional implications for national security, economic growth and political stability. The cable highlighted “HIV/AIDS as an important foreign policy and security issue.”

2. Regional Central American Goals

While the HIV/AIDS problem in Central America was not explicitly part of the Alliance for Sustainable Development (ALIDES), governments and civil society are paying more attention to the problem. Working together, USAID and UNAIDS have assisted participatory processes leading to the formal ratification of National Strategic Plans in all countries. For the first time, the 1999 annual regional meeting of the Ministers of Health (RESSCAD) formally recognized the importance of a coordinated regional response, particularly in regards to mobile populations. An initiative for these mobile populations is being included in the agenda of the upcoming CA-Mexico Presidents Tuxtla IV meeting on cooperation between Mexico and Central America. The Central American Parliament (PARLACEN) Commissions on: Women, the Child and Family; and Health made a joint commitment to promote model HIV legislation and regulations in the region.

C. Problem Analysis

The future sustainable development of Central America continues to be threatened by the HIV/AIDS epidemic. Central America has a history of intra- and extra- regional migration due to past civil unrest, the demand for seasonal labor, greater economic integration, more open border policies, and improved regional transportation routes. Hurricane Mitch exacerbated these migrations and added to the social contexts that make certain groups particularly vulnerable to infection. According to the Central America 2020 report, these

migration patterns are expected to continue in the coming years, with Mexico being both a final destination as well as a transit route for many migrants on the way to the United States. There is also frequent travel by legal immigrants in the U.S. to Central American countries.

Status of the HIV/AIDS Epidemic in Central America: As of December 1999, 24,402 cases of AIDS were reported in Central America, with 45% from Honduras (down from 57% in the mid's 90s). However, estimates of under-reporting range from 30% in Panama to 70% in Belize according to UNAIDS. The overall cumulative incidence of AIDS cases per 100,000 population for the region shows considerable variation across countries. Honduras (174.9) and Belize (162.5) had the highest cumulative incidence. Panama (107.3), Costa Rica (83.4), El Salvador (47.7), and Guatemala (28.7) have reported fairly high incidence rates. The reported incidence for Nicaragua (5.5) is significantly lower than that of its neighbors.

The data on the number of reported AIDS cases provides an indication of the current impact of the disease. But due to the estimated 7-10 year lag between infection and disease onset, they reflect the transmission of that earlier time and not the current level and modes of transmission of HIV in the population. "Second Generation Surveillance" of the epidemic focuses on HIV seroprevalence levels and behavioral information to better characterize the epidemic. Areas of the North Coast of Honduras are the only parts of the region where the epidemic can be classified as "Generalized", i.e., seroprevalences of more than 5% in the general population. The Garifuna ethnic group there, with ties to other Garifuna communities in the Caribbean coast of Belize, Guatemala and Nicaragua as well as the United States, has been particularly affected. A 1997-98 seroprevalence study of four Garifuna communities on the North Coast of Honduras found a rate of 8.4% in the adult population. The limited data on the rest of the region indicates that the other countries fall into the "Concentrated", more than 5% seroprevalence in high-risk groups only (the rest of Honduras, Guatemala, Panama, Belize and El Salvador), or "Nascent" (Nicaragua) categories. Recent seroprevalence and clinical data from Guatemala indicate higher levels of HIV and AIDS than previously suspected and a potential for rapid growth of the epidemic there. Conservative estimates indicate that there are currently 120,000 infected Central Americans with the majority unaware of their condition, and therefore unable to take measures to preserve their health status or prevent future transmission.

While the epidemic was predominantly among homosexual and bisexual men until about 1986, there has been a steady increase in the proportion of female cases. By 1996, over 60% of all reported cases were related to heterosexual transmission, however, the male-female sex ratio (M:F) still shows an excess of male cases suggesting a significant contribution of men who have sex with men (MSWM). The overall regional M:F ratio for 1997 (the last year that complete data is available) was 2.4:1. There was considerable variation across the region, ranging from 1.5:1 in Honduras to 5.3:1 in Costa Rica. As the epidemic becomes well established in the heterosexual population, vertical transmission (from mother to unborn/newborn child) clearly increases. Commercial sex workers (CSW) generally have the highest rates of infection (as high as 20% in some studies) and play a key role in the epidemic because they are also a mobile population. A 1999 survey by the

Mexican National Institute of Health found that all countries of the region had CSWs from at least three of their neighbors. Over 90% of the CSWs in Ciudad Hidalgo, a Mexican city on the Guatemalan border, were from Central America.

This situation has severe implications for future economic development as the costs of AIDS-related morbidity and mortality tax both human and financial resources. AIDS is already the leading cause of death of women of reproductive age in Honduras. The areas most likely to be affected by HIV/AIDS in the future include: work productivity, medical-care costs, and the size of the labor force. In order to maintain economic and social stability in Central America, an HIV/AIDS prevention strategy must consider not only national level interventions but specific regional commonalties and cross-border transmission issues as well. A meeting of Mexican and Central American National AIDS Programs, NGOs, UNAIDS and USAID in Tapachula, Mexico in May of 1999 identified the following groups as being particularly vulnerable: truckers; commercial sex workers (male and female); women in transit (who often engage in nonconsensual transactional sex); street children; agricultural migrants; uniformed services and seafarers. The Tapachula meeting concluded that there was a need for a regional approach to address the problem of these socially stigmatized and vulnerable groups that national programs have difficulties in covering. The meeting also called for the development of a regional strategic plan that would be complementary to and supportive of the national plans.

Opportunities and Remaining Challenges

The HIV/AIDS epidemic is here to stay in Central America as well as the rest of the world. Optimistic expectations are that it will be at least twenty years before an effective biomedical intervention, e.g., a vaccine or cure, will be widely available to low-income countries. Therefore, the ultimate responsibility for providing effective prevention and mitigation services will rest with Central American individuals and institutions. The challenge is to complete the awareness and strengthening process that has been building momentum over the past several years.

At the outset of the regional program, only one bilateral mission, USAID/Honduras, was actively involved in the response. Now, several other missions have or are developing HIV/AIDS programs. The current regional program focused on areas not normally covered by bilateral programs and worked with regional groups, e.g., PARLACEN, to facilitate a more favorable policy and regulatory environment. USAID's NGO strengthening support helped local organizations across countries develop their capacities through shared experiences, information, skills, training, and resources for their programs. The regional condom social marketing (CSM) activity focused on developing a high-volume regional condom brand sales along with the introduction of a variety of "cross-subsidy" products that would generate revenues to be re-invested in the enterprise. USAID reviewed the CSM activity based on lessons learned and recent USAID and World Bank guidelines as to how to best address HIV/AIDS. USAID decided that emphasis on overall condom sales to the general population was not the most effective way to prevent HIV/AIDS in a region with an epidemic still largely concentrated in certain high-risk groups. Furthermore, the emphasis on income generation through "cross-subsidy" products was distracting efforts and attention

away from the primary goal of HIV prevention. The CSM activity now explicitly targets condom availability and behavior change in high-risk groups including mobile populations, and de-emphasizes the introduction of other products for revenue generation while covering costs of the condom and its distribution.

A number of significant regional challenges remain in addressing the HIV/AIDS epidemic:

Growing Policy Development and Public Awareness: The Central American HIV/AIDS policy environment, as measured by the AIDS Policy Environment Score and the Legal-Regulatory Matrix, has improved significantly since 1996. General awareness of the problem, as measured by national surveys and polls is also high. However, inadequate appreciation of specific implications of the problem continues. For example, many Hondurans do not realize that HIV/AIDS is the number one cause of death among women of reproductive age in their country. A sense of urgency needs to be fostered to spur commitment at the highest levels of government and private sectors to integrate HIV/AIDS prevention into ongoing health policy and programs. Recent developments in Panama that resulted in resource commitments from the National Business Council, labor groups and the media provide a model for the rest of the region.

Part of the lack of appreciation of the problem is due to inadequate surveillance data. Honduras is currently the only country in the region with extensive and historical seroprevalence data in high-risk groups as well as the general population. USAID-sponsored fora, in collaboration with the U.S. Census Bureau, spurred increased surveillance activity in Guatemala, and, to a lesser extent, in El Salvador and Panama. An upcoming multi-site study of CSWs and MSWM in capital and port cities will provide new information and increased regional capabilities for surveillance. The regional program can play a key role in further strengthening the sharing and dissemination of surveillance data for informed and improved policy dialogue and advocacy programs throughout the region.

HIV/AIDS legislation in Nicaragua, Honduras, Guatemala and Panama provide models for a policy environment that can incorporate human rights into the response to the epidemic while avoiding often well-intended but punitive measures. Legislators have been sensitized through a number of regional forums and, with the support of PARLACEN, are exchanging experiences among countries. Recent contacts with the First Lady's offices in Panama and El Salvador hold promise for raising attention to the problem to a new level. Again the regional program has a significant role in continuing these exchanges and providing the regional-level opportunities where sensitive HIV/AIDS issues can be discussed openly outside of a national context.

Nascent civil society networking capabilities for effective advocacy programs: Advocacy training is just beginning to result in effective policies and programs. In most cases, the groups that received the training were not yet fully convinced that efforts would be successful. The newly ratified National Strategic Plans, developed with participation of those involved in the training, have renewed interest and opportunities among NGOs and other groups for advocacy programs. Preexisting networks in the region were generally

formal hierarchies that furthered organizational and/or personal advancement rather than groups working together and sharing information and skills for common causes. USAID/G-CAP strengthened a number of regional and national networks, the most successful of which have been the HIV counseling networks and other networks composed of people living with HIV/AIDS (PLWHAs) and sexual minorities. The active participation by these groups in developing the strategic plans has empowered those who are most vulnerable to and affected by the epidemic. The existence of a regional network of information dissemination centers provides a key building block around which these other networks can coalesce for effective advocacy and information sharing. USAID/G-CAP support for the first Central American AIDS Congress (CONCASIDA) in San Pedro Sula, Honduras in November of 1999 brought all of these groups together for the first time. The regional program can continue to foster this important intra-regional interaction which is so critical to address the problem.

Limited Condom Use and Availability of a Low Cost Condom: In spite of progress to date (in a recent follow-up survey of youth in Managua, 27% had a condom on them, 80% of which were the regional brand), condoms are still underutilized in Central America, due to inappropriate personal risk assessment, limited availability at the time and place of need, and in some cases overpricing. In Central America, prior to 1997, condoms were available through three channels: the public health system; pharmacies; and family planning programs. A 1999 regional distribution survey of high-risk urban zones found condoms almost universally available in pharmacies, but very low availability, particularly of low-priced condoms, in non-traditional outlets where high risk groups engage in “risky” behavior, e.g., bars, brothels and hotels. In addition, family planning organizations are not comfortable or interested in targeting these high-risk groups.

USAID will continue to build on established relationships to support efforts, through NGOs and the commercial sector, to expand a regional network of “non traditional” sales outlets to increase condom availability by time, place and cost in targeted high-risk zones. USAID will also continue supporting efforts to achieve behavior change in high-risk groups through person to person interventions and to increase awareness of condom use as one alternative in preventing HIV/AIDS among Central American youth through the media campaigns.

Mobile Populations: Truckers, CSWs (male and female), sailors and immigrants are people placed in contexts and/or in areas (ports, border towns, etc.) that make them particularly vulnerable to HIV. Central America is a region with a high degree of mobility. The regional program is cooperating in the development of a regional strategic plan to deal with this problem under the CA and Mexican Presidents’ Tuxtla I-IV agreements with the active political support of the Central American Integration Secretariat (SICA). Among the specific strategic actions that are being considered to address this problem are: carrying out cross-border surveillance studies, promoting consistent public awareness and information campaigns among the countries, supporting community-based interventions at transit points, and targeted condom social marketing efforts. The regional program is coordinating very closely with the LAC-supported effort

of the Mexican National Institute of Health, through the G Bureau Measure 2 Project, to perform a situational analysis for the development of a comprehensive regional strategy for HIV prevention in mobile populations.

A Growing Demand for Care and Support: According to the G Bureau, this is an important emerging challenge that needs to be addressed. As the large pool of HIV-infected Central Americans progress to the AIDS disease stage, there will be an increasing need for effective care and support of AIDS patients and impact mitigation on the people close to them. USAID has effectively supported counseling networks that deal with the emotional and personal issues. However there will be increased demand for basic care and support, including the nutritional management of HIV/AIDS. The regional program can make a contribution through training, technical assistance, networking and information dissemination of best practices in this emerging problem area.

USAID/G-CAP's regional HIV/AIDS Program has achieved a number of key results and also has produced some important lessons learned. The 1998 review of the program coordinated by the G Bureau Measures 2 Project identified a number of advantages of the regional approach that are still valid:

- The ability to leverage other organizations such as UNAIDS;
- Economies-of-scale in activities such as sharing of information and technical resources, addressing cross-border issues and mobile at-risk populations; and
- Greater policy leverages and "space" for policy leaders from different countries to openly discuss and to interact on sometimes nationally sensitive AIDS policy issues.

The opportunities and challenges outlined above together with the transition towards stronger bilateral HIV/AIDS programs have been taken into account in the strategy for the regional HIV/AIDS programs during the 2002-2006 period. Adjustments have already been made in the current program to allow for the regional program to leave in place the regional networks and hand-over to the bilaterals the strengthening of national NGOs and the national policy advocacy and prevention programs. The regional program will continue to play a leadership role in the sharing of lessons learned, and skill building in prevention programming. More emphasis will be placed on sharing of surveillance data for decisionmaking. The support for improved policies and programming will continue at fairly high levels until FY 2003 to ensure that there is a smooth transition with bilateral programs. It is expected that USAID support for regional CSM will gradually decrease during this transition phase. A smaller scale activity to promote improved care and support will come on line as the Policy/Programming support activities remain focused on regional information dissemination. Finally, there will be a surveillance/data for decision-making activity during the latter part of the Strategy period to consolidate gains to date and ensure continued, informed decision-making for effective policies and programs.

D. Results Framework

The Results Framework reflects the results and lessons learned to date under the Regional HIV/AIDS Program. The program has played a catalytic role in enhancing regional and national policy agendas, pursued the development of regional and national HIV/AIDS strategic plans, strengthened policy, advocacy and prevention networks as well as the national NGOs forming these networks. The strategy recognizes that regional program's country-specific policy and strengthening activities need to transition towards networking and information dissemination where there is a clear value added from the regional program. The strategy expects an increasing involvement by bilateral HIV/AIDS programs in these national policy and prevention activities. The regional CSM program will continue its focus on correct and consistent condom use in high-risk populations and expanding non-traditional distribution. It will also employ a brand name and generic marketing campaign to increase overall awareness and condom use among youth in the sub-region. The Strategic Objective will be achieved by: 1) assisting in the implementation of appropriate HIV/AIDS policies and strategic plans at the regional and national levels; 2) supporting the implementation of improved prevention, support systems and other services; and 3) continuing support for an effective regional condom social marketing effort.

Intermediate Result 3.1: Appropriate HIV/AIDS Policies and Strategic Plans Implemented

USAID has played a catalytic role in supporting national and regional efforts to develop national HIV/AIDS strategic plans in close collaboration with UNAIDS and other partners. It has also played a role in promoting HIV/AIDS policies at the regional and national level. These plans provide the framework for setting of priorities and roles and responsibilities among the public sector, NGOs and the private sector. However there is considerable variability among the plans both in the degree of participation by relevant groups and their technical quality. During the strategy period, USAID will continue to assist in the implementation of these plans and strengthening of planning processes. Similarly USAID will support the implementation of advocacy agendas to ensure that HIV/AIDS issues are addressed. Finally, the regional program, in collaboration with bilateral USAIDs, will have a key value added role in the dissemination of HIV/AIDS surveillance and prevalence data at a regional level to support informed decision making for regional and national level policy changes.

Strategic Objective 3
**Enhanced Central American
Capacity to Respond to the
HIV/AIDS Crisis**

Intermediate Result 1
Appropriate HIV/AIDS Policies
and Strategic Plans Implemented

- Regional and national HIV/AIDS strategic plans implemented, monitored and supported
- Regional and national advocacy agendas effectively implemented
- Regional surveillance and prevalence data disseminated

Intermediate Result 2
Improved Prevention, Support
Systems and Other Services
Implemented

- Information center networks strengthened
- Use of community prevention planning model expanded
- Sustainable mechanism for TA and training identified and strengthened

Intermediate Result 3
An Effective Regional Condom
Social Marketing Program

- Increased condom distribution channels
- Increased geographic coverage of target populations through interpersonal IEC campaigns
- Increased awareness on consistent condom use

To achieve this IR, the following lower level results will be pursued:

Regional and National HIV/AIDS Strategic Plans Implemented, Monitored and Supported – USAID/G-CAP will continue to support the participatory process of monitoring and supporting the implementation of the National Strategic Plans. USAID/G-CAP will support the strengthening of existing partnerships and networks to monitor and implement the National Strategic Plans. Working closely with UNAIDS and bilateral USAID missions, it will target technical assistance and training to identify and overcome obstacles to the implementation of those plans where the regional program can be most effective. Coordination and collaboration with USAIDs is singularly important as bilateral HIV/AIDS programs come on line. USAID/G-CAP will collaborate with UNAIDS and other donors to support regional meetings to assess strategic plan implementation at the national and regional levels.

Regional and National Advocacy Agendas Effectively Implemented – USAID/G-CAP will continue to support regional advocacy networks to maintain HIV/AIDS awareness. Support will be provided to partners to set advocacy agendas and design and implement them. Groups receiving technical assistance and training in this area will include NGOs, media networks, private sector and groups such as labor unions and professional associations. A series of annual forums for regional leaders including those from legislatures, ministries of health and advocacy networks will also be supported. These activities will be closely coordinated with bilateral USAID HIV/AIDS programs to ensure that key partners are identified and avoid duplication.

Regional Surveillance and Prevalence Data Disseminated – USAID/G-CAP will provide catalytic support along with other donors and UNAIDS for multi-site surveys and studies of high-risk mobile populations to better understand the patterns and extent of STI and HIV prevalence in these populations and the behaviors that put them at risk. Results of these and other cross-border studies will be disseminated to policy makers, NGOs and donors to promote strategic and targeted responses by both the regional and national programs. These efforts will be closely coordinated with bilateral USAID programs, including USAID/Mexico. In addition, the regional program will collaborate with UNAIDS, G- Bureau programs, U.S. Bureau of the Census and bilateral USAID missions to disseminate national surveillance and other data at the regional levels to support policy initiatives and programs.

Intermediate Result 3.2: Improved Prevention, Support Systems and Other Services Implemented

USAID will continue to support the information networks established among national partners involved in HIV/AIDS prevention activities particularly the Community Prevention Planning (AcciónSIDA) model. The regional program will also serve to pull together and disseminate information on care and support services models that may be applicable to the region. The regional program will also work to ensure the sustainability of information, dissemination, technical assistance and training mechanisms.

To achieve this IR, the following lower level results will be pursued:

Information Center Networks Strengthened – USAID/G-CAP will continue supporting the Information Center Network focussing on their dissemination role. This network is a primary information dissemination infrastructure that makes use of current electronic information technology. The centers will also position themselves as the hosts for the presentation of research results and discussion forums around timely issues including prevention and care and support services models. USAID/G-CAP will work closely with G Bureau programs (e.g. SYNERGY) in this area.

Use of Community Prevention Planning Model Expanded – USAID/G-CAP will also support other activities for the achievement of the above-mentioned results, including expanding the use of Community Prevention Planning (AcciónSIDA) model which will address the “contexts of vulnerability” that facilitate HIV transmission. The program in collaboration with bilateral USAIDs will select sites to support a limited number of AcciónSIDA planning committees. These committees will receive assistance in developing a situational analysis, preparing an action plan, and implementing/ evaluating the plan. Involvement in AcciónSIDA will inform the regional and national responses by keeping them “grounded” in the reality and needs of the communities affected by the epidemic.

Sustainable mechanism for TA and training identified and strengthened – The regional program will explore what mechanisms can be used to ensure the sustainability of the regional information networks and cadre of technical leaders in HIV/AIDS. USAID/G-CAP will work with UNAIDS, other donors, bilateral USAIDs, and LAC and G Bureau in examining the technical assistance and training functions currently supported by the regional program and how best to ensure continued operation of these functions and networks.

USAID/G-CAP will also examine the analysis of alternative care and support service options that may be appropriate in the Central American context. The regional program will collaborate closely with the G-Bureau and bilateral USAID missions in assessing alternatives and promoting discussions among policy makers, NGOs and other donors on appropriate care and support service models. The regional program may support some pilot activities and disseminate lessons learned through mechanisms such as the HIV/AIDS networks and regional policy forums.

Intermediate Result 3.3: An Effective Regional Condom Social Marketing Program

USAID will continue to support partners efforts to implement a CSM activity which will result in increased: 1) condom distribution channels; 2) geographic coverage of target populations through interpersonal IEC campaigns; and 3) consistent and correct condom use. USAID will help partners expand both the breadth and depth of distribution in order to reach higher risk populations while making affordable condoms available to all actual and potential consumers by increasing sales outlets – both traditional and non-traditional. USAID will target these high-risk groups through: correct condom use demonstrations,

condom promotions with demonstrations in bars, HIV/STI information talks with high-risk groups, and public activities that present information on HIV/STI prevention.

To capitalize on increasing concerns by civil society and the success achieved thus far from IEC campaigns, USAID will continue to support partner efforts in information campaigns emphasizing fidelity, abstinence, and correct condom use. This will be accomplished by repeated and regular use of mass media for both branded and generic condom messages. USAID's partners will actively advocate frank condom discussions at all levels of society, among decision-makers and government officials and in the media.

USAID will also support applied research activities to gain a better understanding of the commercial condom market. Distribution surveys will be conducted every year in principal areas throughout the region. Similarly, the program will be focusing on both increasing knowledge and motivating behavior change and will conduct appropriate Knowledge, Attitudes and Practices (KAP) research to understand how best to effect these changes and evaluate impact over time. The results of this research will be closely coordinated with the activities under IRs 3.1 and 3.2.

E. Critical Assumptions

The Regional HIV Program has had measurable and important successes in improving the Legal Regulatory Environment, in strengthening NGOs and developing local technical capacities, and in establishing a regional condom social marketing activity. Many of the concerns mentioned in the critical assumptions section of the previous Strategic Plan (1997 – 2001) have been addressed. The officially ratified multi-sectoral strategic plans have withstood government changes in three countries, something that never happened before. Furthermore, previously silent and marginalized groups, e.g., PLWHAs and sexual minorities, are starting to step forward and participate in national and regional forums without any real backlash from the general society. A high profile condom promotion campaign also has not met any real obstacles or negative reaction. USAID expects that these assumptions and conditions supportive of the HIV/AIDS will continue.

USAID/G-CAP is depending heavily on UNAIDS, which has increased its commitment to Central America, to continue its successful Expanded Theme Group in Guatemala and extend the experience to other countries in the region. So far successes outside of Guatemala have been variable, but there are signs of movement in the other countries.

Groups outside of the public sector, e.g., business, labor and the media also have become more committed and active. Recent successes with the Business Council, labor groups and media in Panama, the regional labor institutes and other groups provide a model and hold promise for the future. A critical assumption is that this interest will continue.

F. Development Partners and Other USAID Activities

UNAIDS has taken up much of the slack in the area of technical coordination previously provided by the WHO Global Program on AIDS (GPA), but it still has considerably less

program resources than were available through the GPA. They contributed \$450,000/yr to national programs in Central America during 1998-99. UNAIDS also is beginning to provide some financial support to regional activities; e.g. the mobile populations initiative, meetings and conferences. The Dutch, the only other truly regional donor, channel most of their support through a Costa Rican NGO, but will not continue their support after 2001. Norway and Sweden are providing approximately \$3.6 million dollars over three years to support programs in Guatemala, Nicaragua, El Salvador and Honduras. The GTZ and Doctors without Borders have also been active in some countries. Japan and Spain are considering support for a regional initiative to prevent HIV among mobile populations under the Common Agenda with USAID. USAID is the leading donor in this sector and coordinates with other donors both directly and through the country theme groups and the national strategic planning processes.

The continued success of this effort rests upon effective coordination with USAID's bilateral Missions, other donors, and with diverse actors from the public and private sectors. The Program enjoys a very close relationship with the United Nations Joint Program on AIDS (UNAIDS) and has leveraged contributions from other donors for specific events and activities. Therefore, the key to sustainable success in containing the spread of the infection and mitigating its social impact is to strengthen regional awareness, commitment and capabilities to deal with the problem.

G. Customer Focus

The ultimate customers of the HIV/AIDS SO are the Central Americans at risk of contracting the HIV/AIDS virus, and persons living with HIV/AIDS (PLWHAs) and those close to them who are impacted by the disease. The SO targets efforts to reach those who are most vulnerable, e.g., CSWs and MSWM and emphasizes participation of vulnerable and affected groups. The participatory national strategic planning processes have been the best example of giving these groups voice and vote in their destiny. The CSM activity conducts evaluation and customer research with these groups and enlists them as full partners in the social marketing for behavior change effort.

The SO also serves the ultimate customers by working with and strengthening customer representatives, e.g. NGOs, advocacy groups, and ministries of health, to develop more appropriate and effective interventions that respond to the customers' needs. The *AcciónSIDA* process empowers local communities to develop responses to the problem. The SO measures satisfaction with its TA and Training services and also has trained the customer representatives it works with in evaluation techniques and measuring the ultimate customer's satisfaction with their services.

The SO works closely with a variety of partners including USAID missions, LAC and G Bureaus, UNAIDS, other bilateral agencies and regional groups eliciting their feedback and cooperation. The Mid-Project Review was a culmination of an extensive information-gathering and synthesizing exercise that incorporated feedback from these same customer representatives and partners. The SO continues to be dedicated to listening to, involving, and empowering the ultimate customer.

The Central American HIV/AIDS Program is not a technical assistance instrument, as are the G-Bureau mechanisms, although it does and will continue to provide some support to mission in assessing and evaluating their country programs. The Central American Program will also confer with bilaterals and their partners to perform joint programming exercises for HIV prevention. The Program focuses on strengthening regional capabilities through the sharing of experiences, information and skills. With the exception of CSM, it does not do large population-based interventions.

If bilateral missions wish to use their funds for additional activities in their country, the Regional Program can respond provided that the activities that the bilateral mission requests are appropriate under the Central American Program's Results Framework.

H. Sustainability

The first step towards sustainability of the technical and administrative quality of the programs, the development of a pool of highly qualified Central American technicians, has been largely accomplished. Another key sustainability component is the regional network of information dissemination centers that will continue to: 1) provide access to up-to-date information dissemination; 2) serve as an important channel for information dissemination; and 3) generate opinions among political leaders or specific groups for enhanced advocacy and policy support. The Information Centers will become the support unit to the networks, strategic planning processes, government, and the donor community. The Centers will also position themselves as the hosts for the presentation of research studies and surveys, and discussion around timely issues. Also, a key strategy for sustainability of effective programs, in alliance with UNAIDS, will be to strengthen regional/local capacities for implementing and monitoring and evaluating compliance with the commitments made under the national strategic plans.

A key challenge now is to identify and sufficiently strengthen a mechanism that can continue the kind of coordination and technical assistance provided by USAID to date. What shape or form that the mechanism may take is not currently clear. The regional program will carry out a demand side assessment of donors and the prevention community to determine what their needs are for technical services, training and other products and systems that the "sustainable mechanism" could provide. This assessment will then test market the products and services identified in the study to ensure their effectiveness to be followed by the development of a sustainability plan that would enable them to maintain their level of effectiveness.

USAID is also working with our partners on a five-year sustainability plan for CSM that would enable them to continue their level of activities and coverage as USAID assistance winds down. Included in the plan are male condom revenues (which more than cover the total costs of bringing the condom to the consumer), revenues from other "pipeline compatible" products, e.g. female condoms, lubricants, and HIV test kits, and joint ventures within and outside the region.

I. Measuring Achievements: Indicators and Targets

1. Strategic Objective Level

SO3: An Enhanced Central American Capacity to Respond to the HIV/AIDS Crisis

Progress towards attainment of the SO will be measured by:

- (1) A multidimensional AIDS Program Index (API). Baseline 1998: 51.8 (Note: latest data will be available in September 2000). Target 2006: 59.5.
- (2) The incidence of safer-sex practices, as measured by percentage of correct condom use by members of sentinel high-risk groups in their last sexual encounter. Baseline 1997: CSW: 24.8%, MWM: 44.9% (Note: updated information will be available in the next R-4). Target 2006: CSW: 67.2%, MWM: 78.4%.

2. Intermediate Result Level

IR3.1: Appropriate HIV/AIDS Policies and Strategic Plans Implemented

Indicators for achievement of this IR will be measured by the number of positive changes in the Legal-Regulatory Matrix.

IR3.2: Improved Prevention, Support Systems and Other Services Implemented

Progress toward this IR will be measured by a sub-index of the API that measures whether the appropriate audience is targeted, responses are coordinated, available resources are used efficiently, an adequate monitoring/evaluation system is in place, and people with HIV/AIDS are involved. This information will be supplemented with qualitative assessments and quality assurance surveys of clients of the regional mechanism.

IR3.3: An Effective Regional Condom Social Marketing Program

Progress toward IR3.3 will be measured by: (1) Percent of outlets in high-risk urban areas carrying affordable condoms; (2) Percent of target population knowledgeable of correct condom use; and (3) Percent of target population reporting always using a condom with casual partner(s).

Strategic Objective 4: Strengthened Municipal Finance Systems for Local Governments in Central America

A. Linkages to Agency Goals and Objectives

SO4 contributes to three USAID Strategic Plan Goals: (1) Broad-based Economic Growth and Agricultural Development Encouraged; (2) Democracy and Good Governance Strengthened; and (3) The World's Environment Protected for Long-term Sustainability.

B. Linkages to U.S. and Regional Central American Goals

SO4 supports the Central America Alliance for Sustainable Development (ALIDES), which was launched in Managua in 1994 by the Central American Presidents and is seen as a regional and national strategy to preserve peace, freedom, democracy and achieve development, particularly with respect to greater participation in democracy and local governance. SO4 contributes to the implementation of the 1994 CA-USA Agreement: CONCAUSA that is designated to promote clean and efficient energy, bio-diversity preservation, and the strengthening of the legal and institutional frameworks for environment protection.

At the Summit of the Americas (Chile, 1998), an Action Plan was launched to increase nation states' commitments to strengthen civil society participation in the local decision making process, as well as the promotion of transparency in the financial operations of local governments. This Action Plan also calls for national governments to increase financing options for local and other sub-national governments, particularly transfers of national revenues, access to private capital markets and authority for raising revenue locally. These resources will enhance local government financial capacity to expand the delivery of urban services and develop its own capability building programs.

C. Problem Analysis

In Central America, reference is often made to a "first" generation of decentralization and strengthening of local government that was concentrated under the following objectives: 1) political decentralization, in which there has been free elections of mayors, local referenda, public meetings, and other attempts at increasing citizen participation; 2) administrative decentralization, in which there has been more or less a devolution of responsibilities to local government entities; and 3) fiscal decentralization, in which national budgetary transfers, local taxes, and fee-for-service models have been addressed in a variety of ways.

Central American cities and communities are profoundly marked by the concentration of economic wealth and activities and of opportunities to access education and training in the capital and largest cities. This alone would not be so bad if it were the result of an economic process that permitted the most efficient allocation of resources. But in reality this rapid urban growth was triggered by the influx of refugees from war-torn rural zones.

This imbalance was further exacerbated by state intervention that impeded the growth of the competitive advantage of secondary and smaller cities, and paradoxically, had a negative impact on the larger cities that have been affected by pollution, automobile congestion, and severe housing and infrastructure deficits.

Building the capacity at the local level, particularly local government, to plan and finance sustainable and environmentally friendly economic development programs is a daunting task. It is daunting in terms of the amount of resources it can require and in terms of how to make it sustainable and independent of external donor support. Successful local planning requires a combination of political will, financial autonomy, citizen participation and knowledge, and institutional support rarely found at one place at one time. With rapid urban growth trends not going away in the foreseeable future, USAID is becoming increasingly concerned with how to meet growing demands for services by citizens, within this context of limited financial resources.

USAID's Regional Urban Development Office for Latin America and the Caribbean (RUDO/LAC), now located in Guatemala, has over the years supported regional initiatives and institutions working on financing urban infrastructure, with special emphasis on improved infrastructure and services for the poor. RUDO's strategic goal is to improve the management of large and small urban communities in Latin America. In connection with a focus on finance, RUDO's strategic framework also addresses improving local government management capacity, and improving the physical environments of cities and communities.

RUDO's strategy requires that it focus on key countries that lend themselves to being "laboratories" for innovative models of urban management. For many years, Chile has been RUDO's model for innovations in low-income housing delivery systems. About seven years ago RUDO began to focus more on infrastructure finance, and concentrated the use of Housing Guaranty and Urban and Environmental Credit Programs on municipal or local level infrastructure projects. In 1993, for example, the Municipal Infrastructure Finance Program (PROMUNI) was launched by RUDO in partnership with the Central American Bank for Economic Integration (CABEI), establishing a \$26 million credit fund. PROMUNI started in Guatemala and Costa Rica as a pilot project. In 1999, it was extended to El Salvador, Honduras and Nicaragua. CABEI has been lending to public and private financial institutions, which in turn have lent to municipalities to finance eligible infrastructure projects such as electrification, water supply, solid waste management, sewerage systems, road paving etc. By February 2000, PROMUNI had financed 364 projects, benefiting over one million households.

Opportunities and Remaining Challenges

Many years of efforts in the region underscore the fact that national government and international donor funds are not sufficient to build and maintain basic local government-managed infrastructure. In order to maximize the number of people who benefit, from health and economic standpoints, it is vital that USAID work to expand capital markets access for local governments in Central America. Capital markets access will provide a

variety of funding resources that can leverage pay-as-you-go and grant financing and enable a more rapid expansion of infrastructure and services.

An all-too-often overlooked feature of greater local control is the financing of long-term capital projects. Local authorities need to have the capacity to consider financing alternatives, and more financing alternatives need to be available to municipalities. The questions that must be asked are: what can the community afford on its own; how can rates for services be structured and fees collected; what might the community build with debt financing; and what might be built if the project receives at least partial grant support, either for preinvestment studies or as part of a total financing package. Funding sources may include international and central government grants, but they must also include access to capital markets via private lenders.

Municipal governments need to be responsive to their constituents and selective about any new responsibilities and functions they take on. They need to understand what their comparative advantage is in delivering urban services. They need financial resources to effectively meet these responsibilities. Often the private sector, in partnership with a local government, offers higher quality services, wider coverage of the service, and eventually at a lower cost, both to the consumer and to the government which previously subsidized the service. Private sector participation, as opposed to privatization, should therefore be a reasonable option for local governments.

D. Results Framework

SO4 focuses specifically on promoting stronger financial management and creating new financing opportunities and service delivery alternatives for local governments in the region. It will be achieved by building on the three intermediate results cited below: promoting credit quality standards for local governments; increasing local government access to capital markets; and promoting private sector participation in local services and infrastructure.

Building on RUDO's success using credit to spawn policy and programs for housing in Chile, we believe that the Central American region requires a concerted effort to mobilize local capital resources for municipal infrastructure and services. This will require not only the improvement in local government resource management and planning, but also legal reforms, expansion of banking regulations to address specific municipal finance instruments, possible development of a secondary market, and universally accepted means of evaluating municipal credit. Projects will be driven by local planning processes, with technical assistance to package the financing proposals to social investment funds and banks for long-term funding.

Credit-generating activities fall into two primary categories: a) improving the credit quality of local governments, which will require stronger financial management and planning and maximization of locally-generated resources, and b) mobilizing domestic capital for urban infrastructure and services, through credit market practices, and by reforming the social investment funds so that their resources are utilized in a manner that complements the credit markets.

Strategic Objective 4
**Strengthened Municipal Finance
System for Local Governments
in Central America**

Intermediate Result 1
**Promoting Credit Quality
Standards for Local
Governments**

- Improved financial management and reporting standards
- Better practices for management of local government revenue base
- Improved debt management practices at local level
- Improved capital planning guidelines

Intermediate Result 2
**Increasing Local Government
Access to Capital Markets**

- Domestic lending to municipalities increased
- Social development funds' grants and lending to municipalities rationalized
- Disclosure standards created
- Credit evaluation standards developed

Intermediate Result 3
**Promoting Private Sector
Participation (PSP) in Local
Services and Infrastructure**

- Legal framework for private sector participation at the local level established (in a selected laboratory country)
- Capacity at the municipal level to negotiate and regulate PSP in local services created in selected municipalities
- Domestic and international lending to private sector entities engaged in providing local services increased

RUDO also believes that by encouraging private sector participation in urban infrastructure construction, operation, and service delivery opportunities for new economic activities, business expansion, and quality of services will improve. The competition generated by the introduction of private sector actors in this arena will require municipalities to evaluate costs and benefits, actively manage contracts, and bid for contracts.

Intermediate Result 4.1: Promoting Credit Quality Standards for Local Government

While capital market access for local governments is not widespread in the region, it is seen as a longer-term goal. Markets rely on many elements, but the perceived credit quality of municipal borrowers is critical both to potential lenders and to potential private sector contractors. Local governments need to begin to collect and assemble financial data both for their own current uses, as well as for the potential use by credit evaluation teams within banks or from separate credit rating agencies.

To achieve this IR, the following lower level results will be pursued:

Improved financial management and reporting standards – Improved financial management by municipalities improves their access to mobilize financial resources. Timely reporting of financial data assists local officials and citizens in making decisions about where to direct scarce resources. Over time, it provides a record that will facilitate credit evaluation by central government and private sector lenders. Access to reliable financial information creates a better-informed citizenry. Financial reporting is not a panacea, but it contributes to the prevention of corrupt practices by bringing financial decisions to the light of day. Reliable information, presented in meaningful forms, is the best basis for local decision-making and planning.

Reports need to meet basic accounting standards and be meaningful to local authorities and citizens. They need to be presented in a timely fashion and they need to be used as the basis for public discussion of local government spending. Financial management is more than simply filling out spreadsheet forms and submitting them to the appropriate central government authority (INFOM in the case of Guatemala). Financial management involves maintaining accurate accounts of municipal resources, both in terms of cash, cash equivalents, and capital assets, and also tracking municipal liabilities. Accounting practices need to be standardized and municipal treasurers must have staff that can manage regular reporting activities. Fund accounting may be introduced where appropriate: for example, if municipalities maintain diverse enterprise systems, other types of data may need to be compiled, such as users, accounts in arrears, scheduled repairs and replacements, and so on. Cash flows can be developed for municipalities throughout the region, demonstrating when revenues are paid and when liabilities are deducted over the course of a fiscal year.

RUDO will work with FEMICA and local municipal associations and financial institutions to develop basic financial reporting standards for Central America that parallel to those recommended by the Government Finance Officers Association in the United States. These

standards and best reporting practices will be explained and taught through a series of training seminars, with accompanying manuals of instruction and the coordinated presentation of materials via a web site. RUDO will arrange to have municipal finance professionals from the public and private sectors in the United States visit the region periodically to share experiences with their Central American counterparts, through the establishing a Municipal Finance Working Group.

RUDO and its regional partners will oversee course content and establish training benchmarks, to encourage a greater degree of professionalism among municipal finance practitioners in Central America.

Better practices for management of local government revenue base – Local governments need to maximize the amounts of revenues that are generated and collected locally. They need to promote the enforcement of existing tax laws and they need to apply standards equally among all sectors of the population. According to State of the Region (UNDP), municipalities throughout the region receive only a small portion of nationally-collected revenues. They must rely primarily on locally-generated revenues. In addition to reviewing national laws that may redistribute revenues among local governments, RUDO advocates supporting efforts to maximize the collection rates for local taxes and fees.

RUDO will work with FEMICA and local municipal associations to sponsor training for officials and staff charged with local revenue collection. RUDO will also offer regional coordination with other donor organizations offering advanced training in specific programs, such as updating property tax base data. At the same time, RUDO will facilitate cross-border dialogue on local revenue generation policies and practices, so that local authorities can share experiences with policy-makers.

Improved debt management practices at local level – Local governments need to maintain accurate records of direct debt, project debt, and other debt that is a moral obligation of the “personeria juridica.” At this time, few local governments maintain accurate records of debt obligations; virtually no long-term debt exists, and there are myriad forms of moral obligations that were supported for transient political reasons, not infrastructure planning purposes. Any long-term capital plan must include an accurate picture of a community’s debt burden, and amortization schedules must be matched to revenues and collections.

RUDO will oversee the design of comprehensive financial management training curricula that includes debt management. RUDO will sponsor regional municipal finance conferences that include concrete examples of best debt management practices.

Improved capital planning guidelines – Local governments are responsible for identifying capital investment needs, updating capital investment plans on a regular basis, making accurate cost projections for construction and for operations and maintenance, and reviewing financing options, including grants, loans, and pay-as-you-go schemes.

Capital planning is the keystone for effective implementation of infrastructure that meets basic local needs. Basic engineering, design, and construction services may be managed

by municipalities through using outside consultants. The financial component of all infrastructure projects must also be clarified. Local authorities must be able to defend projects not only in terms of sound engineering practices, but in terms of overall costs to the communities they serve. While there is no provision for voter-approved debt under the current legal regimes in the region, this may be advocated in the future. Voters will have to decide on projects based on need and on cost.

Under RUDO's auspices, capital planning will be included as a keystone of the comprehensive training for municipal finance practitioners in the region. RUDO will work with missions as well to incorporate capital planning themes into the next generation of Local Government Strengthening programs.

Intermediate Result 4.2: Increasing Local Government Access to Capital Markets

The test of a strengthened municipal finance system is ultimately whether it generates capital that may be invested in public sector infrastructure. There are few programs that encourage the use of public finance credit markets (the key exceptions are PROMUNI and the DCA program in Guatemala). Banks have not made loans to municipalities based on credit principles; relations between banks and local authorities have been more clientilistic or political than business-oriented. Bankers need to see municipalities as potential clients, much as they view other large commercial accounts. They should compete for municipal accounts, and they should offer loans at market interest rates that extend for more than one or two years. Municipalities should be able to pay for infrastructure projects over a longer term than the traditional rapid amortization now offered, and loans should more closely reflect the useful life of the project itself. As in the United States, where interest paid by municipal borrowers is exempt from taxes, adjusting local banking regulations and tax laws may be a means of encouraging private sector lending at relatively little cost to the central government.

Lenders face a variety of risks: first and foremost is default risk (other types include political risk, inflation risk, and currency exchange risk). Municipalities may address default risk by adopting structural features in loans that provide assurance to the lender at no cost: reserve funds, regular payments to a paying agent in advance of the technical due date, so that any failure to pay may be addressed before a true default occurs. Municipal enterprises may adopt rate covenants that require regular review of rates and collections by the lender or outside party, with adjustments made to meet the covenant.

Additional features may address default risk, including the use of the Development Credit Authority (DCA). The DCA insures half the value of a given loan portfolio, guaranteeing a lender will only risk half the total principal. While effective, DCA is not the only guarantee option. Banks in the region may find other guarantees effective as well. For example, under certain circumstances, central governments may agree to intercept a portion of monies being transferred to a local government on behalf of a lender. This type of action may be appropriate if the borrower has a poor financial management record, and if local officials make arrangements for this action in advance of executing a loan. The goal is to avoid default, or the assumption of the local government's obligation

by the central government. Similar arrangements have been made in the United States, notably between the State of California and school districts with bad credit histories.

Also, while not available in the region at this time, there may be an opportunity to create funds that effectively insure municipal debt, in the same way that private municipal bond insurance functions in the United States. Another means of addressing risk is through pooling borrowers with diverse credit quality. This can be done through bond banks or other types of revolving loan funds and could be established through a social development fund.

To achieve this IR, the following lower level results will be pursued:

Domestic lending to municipalities increased – Banks' relationships with municipal clients need to be fomented. In order to promote competition for municipal lending, certain principles need to be pursued. These include reducing risk to lenders by using structural means to ensure timely payments; promoting the appropriate diversion of a portion of central government transfers to lenders (intercepts) and insurance; introducing various debt structures etc.; introducing various debt structures and resource pooling techniques such as trust funds, asset-backed securities, reserve funds, bond banks.

RUDO will work with local banks to promote new municipal lending structures through pilot programs. These may include DCA, if the bilateral missions so desire. RUDO will also provide opportunities for local bankers to meet with municipal finance specialists from U.S. investment banks, to discuss the particularities of dealing with municipal borrowers.

Social development funds' grants and lending to municipalities rationalized – The social investment funds in the region are not going away, but they must be encouraged to operate on market principles and make all subsidies and grants in a direct fashion. They should not hold a monopoly on providing technical assistance, but they may provide standards for project reviews and presentations. Project reviews should be undertaken in a timely fashion, and the reasons for disapproval of a project should be public. Improved TA for project planning, increased transparency of the review process, and the principle of leveraging funds with government guarantees need to be introduced.

Bond banks have become a well-known means by which U.S. state governments leverage capital available for grants and loans to municipalities, and may be an appropriate tool to introduce in the region. A national government could take a portion of the funds it has available for municipal projects and borrow on behalf of a structure pool from a private bank. Participating municipal borrowers would receive a single loan that combines government and private sector funds, and make single debt service payments. However, the government subordinates its claim to the funds, so that the private lender receives its money first. If some of the payments are late, the government effectively pays its portion to the lender on behalf of the pool. This is not an absolute cure for defaults, but it could provide the same level of security as the DCA. No debt is forgiven in a bond bank structure, but the lender is more likely to receive the entire debt service payments in full and on time because the organizing government entity subordinates its rights to theirs.

RUDO will work through the International Forum for Cooperation on Local Government in Latin America and the Caribbean (Donors' Forum) to coordinate efforts to introduce international capital markets practices into social investment funds throughout the region. Region-wide, we will invite representatives from the funds to participate in municipal finance activities that emphasize capital planning and credit evaluation components. RUDO will work closely with bilateral missions in providing guidance on the best utilization, structure, and role of these funds in the context of their fiscal impact on the financial decisions made by local governments.

Disclosure standards created – Budgeting and financial reporting, debt reporting, audit standards and universal availability of data (it belongs to the municipality for public use) are principles that need to be established if communities are to attract private capital. A credit market, even at the primary stage (borrowers and lenders, with no securitization of the debt for sale in a secondary market) requires basic disclosure rules and regulations. Extra information may be offered, but any local government that presents projects for financing should be able to make fundamental disclosure data available as part of the same package. Disclosure standards may be developed in consultation with banks and municipal associations, as well as social investment funds, but they should also mirror international disclosure standards. The same information should be available to all potential lenders, as well as to local residents.

The pilot lending programs will provide a platform for developing best practices for disclosure within the region. The credit process presents an opportunity for dialogue between lenders and borrowers that can clarify long-term municipal goals. If certain types of information, such as local government employment, are not available historically, municipalities will be encouraged to initiate record-keeping on new topics. RUDO will work with local municipal associations to ensure that municipalities participating in credit programs meet basic criteria for creditworthiness and that they understand their ongoing obligations to keep lenders informed of their indebtedness and financial status.

Credit evaluation standards developed – Capital markets require objective credit review that addresses the key question: what is the borrower's ability to pay debt service in full and on time? Banks that deal with municipalities must develop basic credit evaluation skills; these should be fundamentally the same from bank to bank. While the rating scales used by the international rating agencies are complex and have been based on the evaluation of hundreds of thousands of debt transactions, a simpler scale may be developed for general use in the region. Independent credit evaluations and those performed within financial institutions must be based on the same criteria, beginning with the standard disclosure materials. Initially the categories used may simply be credit-worthy and not credit-worthy, with articulated reasons for the decision made based on specific criteria. The default risk to the lender needs to be addressed; standard disclosure materials need to be used and expanded where important (i.e. depending on the type of project to be financed).

Through pilot municipal lending programs, RUDO will encourage local banks to develop objective municipal credit evaluation skills among their staff. RUDO will take advantage of its relationship with the three international credit rating agencies, Moody's Investors Service, Standard & Poors, and Fitch IBCA-Duff & Phelps, to develop programs that teach credit evaluation skills to bankers, government authorities, and any other interested parties in the region.

Intermediate Result 4.3: Promoting Private Sector Participation (PSP) in Local Services and Infrastructure

PSP is broader than privatization, in which public enterprises are sold and converted to private companies. Infrastructure and basic urban services in water, roads, transportation, solid waste management, and, to a lesser extent, energy transmission and distribution, have been collectively defined as the "final frontier" in the processes of private sector participation. These areas are the most complex because a) they involve multiple social and environmental factors, b) they are considered natural monopolies, and c) the complexity of laws that apply to conflicts in water use and the encumbrance of public lands. As PSP moves into these areas, projects will likely be concessions (franchises) rather than outright privatization of existing assets. This will require a set of regulations that defines roles, resources, and mechanisms for coordinating among different levels of government and a legal framework that encompasses various types of contractual relationships with local governments.

Nevertheless, RUDO believes that in certain contexts, contracts with private vendors can allow municipalities to better serve their constituents at a lower cost than they would otherwise be able to offer directly, without sacrificing their political autonomy and their supervisory role as quality control managers.

To achieve this IR, the following lower level results will be pursued:

Legal framework for private sector participation at the local level established (in a selected laboratory country) – There is a need to define the areas of competency, roles, resources, and mechanisms for coordinating among different levels of government to achieve the regulation and delivery of local services. This involves establishing contractual alternatives for private participation, including full concession, BOT (build-operate-transfer), BOOT (build-operate-own-transfer), management contracts, outsourcing, leasing, and private service contracts.

RUDO will work with municipal associations, private associations such as the Federation of Chambers of Construction (FIIC), and other appropriate partners to develop and clarify opportunities for municipal contracts with private vendors. RUDO will introduce various models for private participation that have been tested in Chile, Argentina, Colombia, and Costa Rica, to name a few pioneering countries in the field. U.S. models will also be presented, through for a established by the municipal associations and other appropriate partners.

Capacity at the municipal level to negotiate and regulate PSP in local services created in selected municipalities – There is a need to raise local level awareness of the advantages, disadvantages, and opportunities for private participation in the delivery of infrastructure and services and of the conditions required to attract potential investors. For this, a minimal capacity to contract for pre-investment studies, engage in marketing activities, and implement open competition bidding for private sector participation in infrastructure and local services is required. Likewise, municipal capacity to adopt and apply environmental regulations and technical specifications that guarantee the quality, continuity, and coverage of services, without upsetting the financial balance of contracts with private vendors is essential.

RUDO will work with FEMICA and municipal associations to develop appropriate training and materials for municipal staff. RUDO will coordinate with UNIAPRAVI, our partner in the Latin American and Caribbean Urban Network (LACUN), to establish bid announcements via the internet on the UNIAPRAVI website. Local government representatives of U.S. and Latin American cities and towns with recent experience in this area will be invited to form partnerships with host country towns selected by missions to participate. The Agency's Resource Cities Partnership Program is an existing vehicle for such an activity.

Domestic and international lending to private sector entities engaged in providing local services increased – There are currently no domestic sources of private financing for infrastructure projects in Central America. The banking systems do not have the capability of extending long-term loans, because their own funding base is largely short-term. There is no experience with a bond market (bonds are securitized loans). In order to promote domestic and international lending to private sector entities engaged in providing infrastructure and services on behalf of public entities, it is necessary to address and reduce political, regulatory, credit, commercial, and operational risks. This will require, among other elements, the introduction of structural features such as those described in the previous IR: reserve funds, trust and paying accounts, mezzanine credit, as well as the use of guarantees, such as the DCA. This effort will require continuous customized application, on a case by case basis, that combine elements of project finance, corporate finance, and municipal finance.

RUDO will provide technical assistance, on a case by case basis, in countries in which vendors seek loans from private lenders to support their work under contract to local governments. Because the lenders will need to be able to evaluate the credit risk inherent in contracts with municipalities in much the same way that they would evaluate the risk of direct loans to the same entities, RUDO would provide training opportunities for bank personnel and work with local partners to ensure that the municipalities involved provide the required information.

E. Critical Assumptions

The ongoing consolidation of regional peace and democratic processes is critical to the achievement of SO4. As for the SO on Competitiveness in Global Markets, this SO requires the consistent application of sound macroeconomic policies and fiscal discipline.

Those actors addressing banking reform and rule of law issues must recognize the importance of municipal governments as full participants in domestic capital markets and establish the appropriate laws and codes that facilitate municipal authority to govern current and capital finances. This will include permitting the use of private sector entities to provide certain types of municipal infrastructure construction and management, and the out-sourcing of appropriate municipal services.

SO4 assumes that the regional standards for capital markets development will be derived from those of the international market: this cannot be achieved without a concerted effort over the next several years. Once regional standards are in place, we hope that local capital resources can be used to support public projects and services, but we do not expect that this new domestic source of funding will fully meet all needs without continued donor support. Rather than anticipating a reduction in outside donations, we expect that the use of local capital and private sector participation will permit a broader and more rapid expansion of basic services within this time period. It will alleviate, but not eliminate, the reliance on external aid.

The central governments of all seven countries must continue to promote decentralization and local government autonomy, in the political and economic spheres. The central governments will continue to play an important role in local affairs, but the immediate authority must rest with municipal officials.

F. Development Partners and Other USAID Activities

SO4 is designed to complement existing bilateral and regional programs that support local government and democracy. RUDO/LAC would work with the existing local government programs in all countries in the region, and coordinate with existing contractual partners such as NEXUS of Development Alternatives Inc. in Guatemala, Research Triangle Institute in El Salvador, and Planning and Development Collaborative International in Nicaragua. Other Global Bureau programs that support municipal governments include Making Cities Work and the Resource Cities Program, sponsored through ICMA. RUDO's development partners in the region would include regional partners such as CABEI and FEMICA, as well as national organizations like AHMON, the municipal association for Honduras.

The Inter-American Development Bank has approved a loan that will provide support for internal reforms to INFOM, the municipal investment fund for Guatemala. RUDO would work to broaden the context of these reform efforts, thereby leveraging the IDB funds to address broader municipal finance issues in Guatemala. Similar efforts by the IDB are underway in Honduras. Other donors, such as the GTZ and the Cooperacion Suiza have expressed strong interest in RUDO's proposed municipal finance programs.

At the recent World Bank conference on Expanding Access to Capital Markets held in February, 2000, many speakers emphasized the need to work within local capital systems to create and expand opportunities for public investments, instead of expecting that appropriate practices would be "imported" from the advanced U.S. and European

markets. USAID is uniquely positioned to introduce fundamental capital markets practices and encourage public and private sector actors in the region to engage in new financing and investment efforts.

G. Customer Focus

This SO responds to requests from municipal associations and bankers in the region to help develop viable financing alternatives for local infrastructure and services and to assist with the creation of pilot programs for municipal finance. It is also linked to the Donor Forum's platform of promoting effective municipal financial management. It directly complements the region's bilateral missions' objectives to strengthen democratic institutions and processes and, those working on economic growth issues. It will expand the dialogue among our regional partners who are concerned with rule of law and effective and appropriate decentralization.

To be implemented, the SO requires close collaboration with each bilateral mission and its democracy team. RUDO proposes to develop individual Memoranda of Understanding with each bilateral mission in order to address the specific elements contained in the IRs outlined above as they relate to existing bilateral programs. Coordination with the democracy and economic development programs is important to the success of the SO. Ongoing programs that encourage greater citizen participation may be linked to municipal finance activities and both sets of efforts will benefit. RUDO/LAC is developing programmatic links to individual bilateral SOs that will support the implementation of the regional SO.

H. Sustainability

This Strategic Objective will support policy and legal reforms that will facilitate a broader use of private capital for public infrastructure investment. Stronger financial management practices will enable local governments to actively engage in the planning and financing of projects and services, and as more local governments become credit worthy, more financing vehicles will be available to them from local and possibly international sources.

By orienting participants to a public finance capital market, we will encourage creativity and competition among groups of lenders and borrowers. The greater the variety of credit options, the more flexible and adaptable the system for delivering basic services to local populations. Becoming credit worthy and maintaining sound credit practices, engaging private sector contractors through an informed and critical evaluation process, and accessing long-term capital through diverse sources are tools that enable local governments to meet service demands and maintain basic standards for service delivery.

The cultivation of the skills required of all parties will be critical for the sustainability of this strategy. It is expected that once private sector participants understand the risks and benefits associated with municipal partnerships, more will seek to develop the necessary expertise for creating and packaging municipal finance proposals. Indeed, if the process

gains momentum, we may see the development of a local secondary market for municipal obligations: if the risk is considered manageable by portfolio managers, the return may be enough to attract pension funds and other large scale investors.

I. Measuring Achievements: Indicators and Targets

The indicators proposed for this SO are those already being used by RUDO to report to its home office in the Global Bureau. However, in order to reflect local field conditions, RUDO tailors these to the special characteristics of the region and countries. As this SO's activities for each country are developed, RUDO will define a set of quantitative indicators to support the "stage" selected. Baselines for indicators will be established through selective assessments to be conducted in the first year of the life of the SO, where these do not already exist. A model to follow will be the Municipal Finance Assessment developed in Honduras in 1998. Below we suggest a few examples of the types of indicators for which data can be collected and which adequately measure the "stage" a country is determined to be in. RUDO would be working with each mission to determine the final group of indicators to be used.

1. Strategic Objective Level

SO4: Strengthening Municipal Finance in Central America

The indicators initially proposed for measuring progress toward SO attainment will be: (a) Extent to which an integrated policy framework is in place and is used to guide the system whereby urban infrastructure is financed; and (b) Level of financial sector and other involvement in municipal and urban infrastructure finance in targeted countries. These indicators have a set of descriptive "stages." The stages describe the expected steps that occur along a continuum to achieve a given intermediate result or objective. They range from a situation in which there is no financial sector interest or understanding of needs of the municipal sector or for urban environmental infrastructure investment to one in which competition exists in financing of municipal services and urban infrastructure and innovation is increasing and costs of financing declining as a result of broader private involvement.

2. Intermediate Results Level

IR4.1 Credit Quality of Local Governments Improved

The proposed IR4.1 indicator is the Financial Management Index used by RUDO which measures the extent to which standards are developed and in use by both targeted areas and the financial sector. This indicator has a set of four descriptive "stages." They range from a situation in which there are no accounting, financial reporting or credit rating standards in place to where there is a full range of financial standards in use and/or in development and appropriate bodies charged with maintenance and updating of standards exist.

Examples of measurement variables to use are:

- a. Number of municipalities doing comparative budgeting and reconciliation
- b. Number of municipalities presenting debt statements
- c. Number of municipalities with capital improvement plans
- d. Number of municipalities with access to financial management training

IR 4.2: Increasing Local Government Access to Capital Markets

The proposed IR 4.2 indicator the degree of choice among appropriate, affordable financial mechanisms for municipal and other urban investments. This indicator has a set of four descriptive “stages.” They range from a situation in which there is no selection of funding sources and only government or quasi-government funding is available to where there is a range of appropriate financing vehicles and instruments available to targeted areas and a choice of mechanisms exist made at the local level.

Examples of measurement variables are:

- a. Number of new participants as lenders to municipalities
- b. Number of new borrowing structures being discussed or used
- c. Availability of credit enhancement activities

IR4.3: Increased PSP in Infrastructure and Services

The proposed IR 4.3 indicator timeliness and effectiveness of government in facilitating and managing private sector participation in infrastructure and local services. This indicator has a set of four descriptive “stages.” They range from a situation in which there is no policy/regulatory oversight in place and private participation is taking place on an ad hoc basis to where PSP activities are taking place where desirable on a timely basis with appropriate level of government oversight and there is a system for incorporating/addressing public concerns are well established.

Examples of measurement variables are:

- a. Number of training sessions on contracting for municipal services
- b. Number of applications of best practices in contracts
- c. Availability of contracts management training and certification

PART III: Resource Requirements

USAID/G-CAP will rely on \$62 million Development Assistance and Child Survival funds to support the five-year strategy period FY 2002-2006. Consistent with LAC Bureau guidance, these funds do not represent an increase over the previous five-year strategy period, FY 1997-2001, during which time obligations totaled \$62.7 million, excluding the special Hurricane Mitch funding. In FY 1999 and FY 2000, USAID/G-CAP obligated \$13.2 million disaster supplemental special funds (CACEDRF) to support the Regional Hurricane Mitch Special Objective. As described in the FY2002 R-4 submission, the regional program relies on 12.5% (19 positions) of the combined regional and bilateral staff complement and an annual OE of \$600,000. The Mission foresees maintaining staffing and OE for the regional program at current levels during the period of the strategic plan.

Economic Growth SO. The Increased Central American Competitiveness in Global Markets Objective (SO1) will require \$20.05 million over the strategy period. These funds will continue to support successful interventions, both new and ongoing, in the areas of trade and investment policies, Central American market integration, and labor. Working with regional partners, SO1 would benefit by additional funds (plus 10%) to further augment activities by SIECA in trade and investment policies, particularly in providing expanded help to national entities. A decrease in planned resources (minus 10%) would directly affect plans to complete work in regional banking sector prudential supervision activities.

Environmental SO. Under the strategy, the bulk of the resources will support for the Improved Environmental Management in the Mesoamerican Biological Corridor Strategic Objective (SO2). In his address to the Central American presidents at the Antigua Summit in March 1999, President Clinton pledged \$25 million over five years to support the regional environmental program and global climate change initiatives. A total of \$28.2 million is needed to complete planned activities in: protected area management; environmentally sound products and services; harmonization of environmental regulations; and use of less polluting technologies. Should additional resources become available (plus 10%), allocations to extend priority training and technical assistance in clean technologies as well as expanded assistance in dealing with vulnerability issues, regional coordination such as transnational watershed management and forest fire prevention will be considered. A decrease in the planned amount (minus 10%) would result in cutbacks on planned activities to address regional vulnerabilities to environmental disasters and local ecocertification of new product lines.

HIV/AIDS SO. Support for an Enhanced Central American Capacity to Respond to the HIV/AIDS Crisis (SO3) will require a minimum of \$12.25 million over the strategy period. The three areas to which funds are directed are: policies and plans; prevention, support systems and other services; and condom social marketing. The working assumption in deriving the resource level flows from the LAC Regional HIV/AIDS strategy that anticipates a transfer of certain HIV/AIDS activities from G-CAP management to the bilateral missions as the programs fully integrate over time.

Declining annual resources are thus projected for the regional HIV/AIDS SO. Given the tendency of the HIV/AIDS pandemic to increase rather than decrease in Central America, additional resources (plus 10%) would continue to be used to address those areas not fully captured in bilateral programs.

Municipal Finance SO: Over the course of five years, RUDO estimates that this Strategic Objective will require an estimated funding level of \$5.0 million to achieve planned results. USAID/G-CAP will provide \$1.5 million towards this effort. RUDO will seek support from the Global Bureau and bilateral missions to fund the balance required (\$3.5 million). RUDO and USAID/G-CAP will discuss options to curtail or reduce planned activities if the requested outside support does not materialize. Should additional resources become available under this strategy, USAID will contribute up to \$2.5 million to support this SO. However, should the planned amount decrease, USAID will be forced to drop all plans to fund this SO.

Implementation Plan. Implementation will continue to utilize existing instruments (e.g., contracts, grants, and cooperative agreements) wherever possible, most of which are with regional partner agencies and organizations. The principle regional organizations include: the Secretariat for Central American Economic Integration (SIECA), the Central American Commission on Environment and Development (CCAD), and the Central American Integration System (SICA). International and national nongovernmental organizations, grantees and contractors will also be involved in program implementation. We will explore the possibility of extending existing PASA relationships with the USG agencies, e.g., the U.S. Environmental Protection Agency, NOAA, U.S. Geological Survey, as appropriate, and use the interagency models developed under the Hurricane Mitch Special Objective as needed.

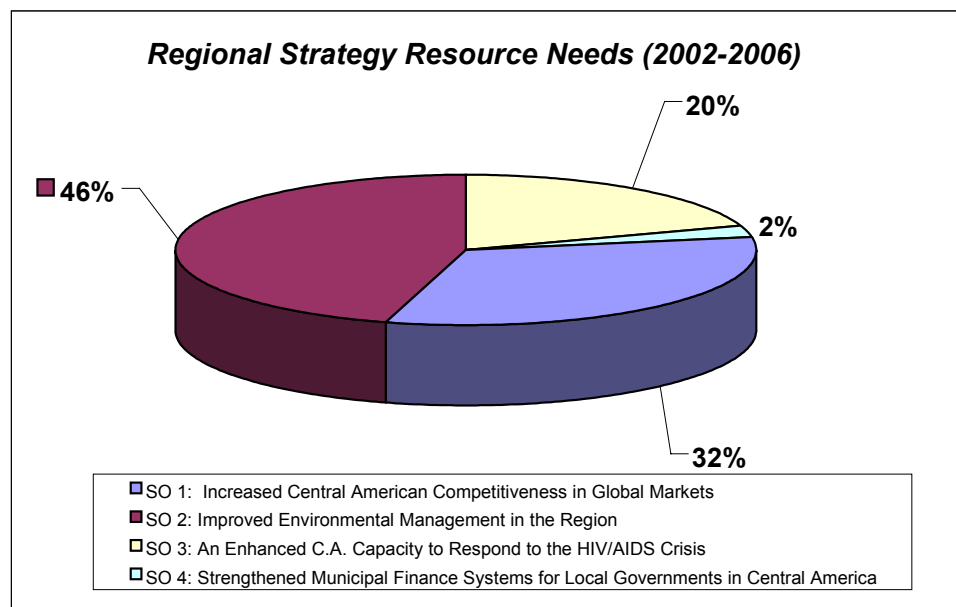
Global Field Support. Buy-ins and/or transfers to Global Bureau will be considered to assist in program implementation on a case by case basis depending on needs and capabilities identified. During the previous strategy period, buy-ins were used particularly to secure quality technical support for the HIV/AIDS objective, including the TAACS program, a practice we will continue during the new strategy period. Similar Global Bureau support may be expected in the areas of energy and telecommunications, the internet initiative, ecocertifications, and global climate change.

Scenario 1: Proposed Resource Request

Central American Program Strategy

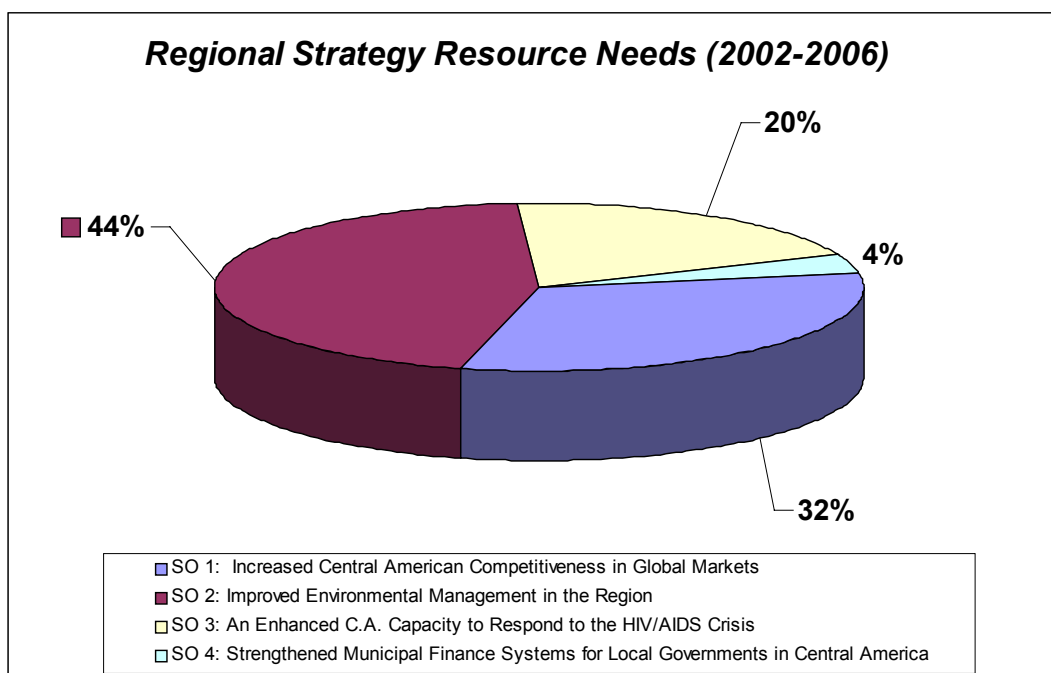
Resource Needs (2002-2006)

ACTIVITY	2002	2003	2004	2005	2006	TOTAL
SO 1: Increased Central American Competitiveness in Global Markets	3,100,000	4,090,000	4,210,000	4,310,000	4,340,000	20,050,000
SO 2: Improved Environmental Management in the Region	6,000,000	5,330,000	5,500,000	5,700,000	5,670,000	28,200,000
SO 3: An Enhanced C.A. Capacity to Respond to the HIV/AIDS Crisis	3,500,000	3,000,000	2,600,000	2,000,000	1,150,000	12,250,000
SO 4: Strengthened Municipal Finance Systems for Local Governments in Central America	600,000	600,000	300,000	0	0	1,500,000
TOTAL	13,200,000	13,020,000	12,610,000	12,010,000	11,160,000	62,000,000



Scenario 2: Additional 10%
Central American Program Strategy
Resource Needs
(2002-2006)

ACTIVITY	2002	2003	2004	2005	2006	TOTAL
SO 1: Increased Central American Competitiveness in Global Markets	3,294,000	4,349,000	4,558,000	4,741,000	4,774,000	21,716,000
SO 2: Improved Environmental Management in the Region	6,376,000	5,673,000	5,953,000	6,270,000	6,237,000	30,509,000
SO 3: An Enhanced C.A. Capacity to Respond to the HIV/AIDS Crisis	3,850,000	3,300,000	2,860,000	2,200,000	1,265,000	13,475,000
SO 4: Strengthened Municipal Finance Systems for Local Governments in Central America	1,000,000	1,000,000	500,000	0	0	2,500,000
TOTAL	14,520,000	14,322,000	13,871,000	13,211,000	12,276,000	68,200,000

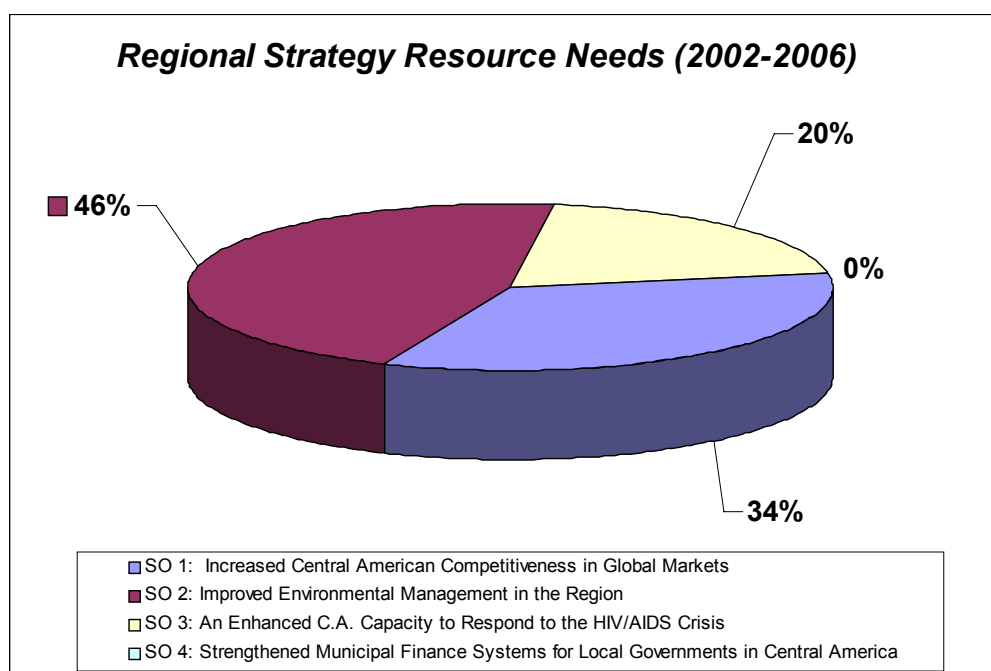


Scenario 3: Minus 10%

Central American Program Strategy

Resource Needs
(2002-2006)

ACTIVITY	2002	2003	2004	2005	2006	TOTAL
SO 1: Increased Central American Competitiveness in Global Markets	2,880,000	4,068,000	4,059,000	4,059,000	4,059,000	19,125,000
SO 2: Improved Environmental Management in the Region	5,850,000	4,950,000	4,950,000	4,950,000	4,950,000	25,650,000
SO 3: An Enhanced C.A. Capacity to Respond to the HIV/AIDS Crisis	3,150,000	2,700,000	2,340,000	1,800,000	1,035,000	11,025,000
SO 4: Strengthened Municipal Finance Systems for Local Governments in Central America	0	0	0	0	0	0
TOTAL	11,880,000	11,718,000	11,349,000	10,809,000	10,044,000	55,800,000



USAID/G-CAP Regional Strategic Objectives and C.A. Bilateral USAID Missions SOs

Country	SO1: Increased Central American Competitiveness in Global Markets	SO2: Improved Environmental Management in the Mesoamerican Biological Corridor	SO3: An Enhanced Central American Capacity to Respond to the HIV/AIDS Crisis	SO4: Strengthened Municipal Finance Systems for Local Governments in Central America
GUATEMALA	SpO1: Support the Implementation of the Peace Accords IR4: State institutions Modernized to achieve rapid implementation of the Peace Accords SO4: Increased Rural Household Income and Food Security IR4.1: More small farmers engaged in higher value production and marketing	SO4: Increased Rural Household Income and Food Security IR4.1: More small farmers engaged in higher value production and marketing SO5: Improved natural resources management and conservation of biodiversity IR5.1: People adopt more sustainable practices IR5.2: Policies affecting the environment are improved and applied	SO3: Better Health for Rural Women and Children IR3.2: Maternal-child health programs are well managed IR3.3: Stronger Guatemalan commitment to integrated women's health	SO1: More Inclusive and Responsive Democracy IR1.3: Increased citizen participation in strengthened local governments
EL SALVADOR	SO1: Expanded Access and Economic Opportunity for El Salvador's Rural Poor Families IR1.4: Better Rural Productive Infrastructure IR1.5: Economic Policy Environment Supporting Greater Equity	SO4: Increased Access by Rural Households to Clean Water IR4.1: Improved quality of water sources IR4.4: Greater Municipal Participation in Water Resources Management	SO3: Sustainable Improvements in the Health of Women and Children Achieved IR3.2: Increased use of appropriate reproductive health practices and services	SO2: More Inclusive and Effective Democratic Processes in El Salvador IR2.3: Strengthened local government
HONDURAS	SO1: Expanded and Equitable Access to Productive Resources and Markets IR1.1: Improved policy environment conducive to poverty reduction through economic growth	SO2: Improved Management of Watersheds, Forests and Protected Areas IR2.1: Rehabilitation of key watersheds IR2.2: Improved management of protected areas IR2.3: Development and sharing of information for natural resource management and disaster preparedness IR2.4: Improved execution of proper forest management practices SO5: More Responsive and Effective Municipal Governments IR5.2: Improved citizen participation in local government	SO3: Sustainable Improvements in Family Health IR3.3: Increased use of STI/AIDS prevention practices	SO5: More Responsive and Effective Municipal Governments IR5.1: Strengthened municipal governments IR5.3: Improved coverage of basic services & repair of damaged infrastructure
NICARAGUA	SO2: Sustainable Growth in Small Producer Income and Employment	SO2: Sustainable Growth in Small Producer Income and Employment IR2.3: Natural resources being used more rationally	SO3: Better Educated, Healthier and Smaller Families IR3.2: Comprehensive reproductive health services	SO1: More Political Participation, Compromise and Transparency IR1.4: Achieving good governance
PANAMA		SO1: Improvement in Institutional Capacity to Manage and Protect the Panama Canal Watershed IR1.1: Institutional arrangements for effective PCW Management and Protection Adopted. IR1.3: Protected area management systems functioning effectively IR1.4: Local capacity to protect and manage the PCW increased		SO1: Improvement in Institutional Capacity to Manage and Protect the Panama Canal Watershed IR1.4: Local capacity to protect and manage the PCW increased